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Taking you on a journey from saving to investing

Apr - Jun 2021

Tax break round-up to save you cash

Two approaches to investing for your children

Why cheap funds aren't always best

Unusual ISA fund ideas

+ lots more!

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Your Investment Jo

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Note from the editors

Hi Investors,

Welcome to issue 3 of Get Investing!

In this tax year-end edition, Faith Archer takes a look at the generous tax breaks on offer to help you save the pennies; Ed Bowsher asks if cheap passive trackers and ETFs are good investments; Cherry Reynard explores some of the more unusual corners of the markets to give you tips for your ISA; plus we take a dive into child ISAs and SIPPs (that's right!), hear from private investor Woodie Dormandy on his journey starting out with investing, discuss the GameStop trading saga, offer a strategy for portfolio construction, and talk to fund manager of £7 billion Ben Seager Scott to hear what he thinks of the economy and markets right now.

And just in case you were wondering, all of our editorial is independent! The only payments we receive is for the ads you see throughout the guide – **no commission** is paid on any funds discussed within the articles. All we want to do is find you cracking investment opportunities to help you grow your wealth, from experts we have spent our careers in investing getting to know.

If you're starting out and finding it all a bit complex, we suggest signing up to our free, 7-day email based course, where each day we send you a guide for the 'Step' plus various explainer and jargon buster animations and articles to help you understand the investing basics. There are no obligations – it just helps you structure your approach to building a balanced portfolio of investments that meets your goals.

Finally, if you're interested in keeping up with what's going on in the markets week-to-week and want to keep abreast of the latest investment ideas, we also have the Steps to Investing Podcast, available wherever you like to listen to your pods.

Happy investing!

Marcus and Simon, Co-Founders

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Personal finance: take advantage of tax breaks to hang on to more of your money

By **Faith Archer,**
financial journalist and blogger at muchmorewithless.co.uk.

Beat stealth tax rises by taking advantage of allowances while you can – and earn thousands every year without paying a penny in tax.

In the March budget, the Chancellor announced he would be freezing a slew of allowances across income tax, capital gains tax, inheritance tax and pensions from April 2021 to 2026.

This is a sneaky way to increase tax revenue in future, as more people get pushed into paying higher taxes by wage inflation, rising property prices and investment growth. By stashing cash in individual savings accounts (ISAs) and pensions, your money will grow tax-free in future. Each year, you can top up ISAs by £20,000 and pensions by £40,000. But there are also ways to shelter earnings right now.

So, seize the chance to make the most of the current year's tax allowances, before they disappear on April 5.

Personal Allowance (£12,500)

Most of us can earn up to £12,500 a year before paying any income tax, increasing to £12,570 after April 5, 2021, but then frozen for five years afterwards. However, once you earn more than £100,000 a year, the tax man will start taking away £1 in personal allowance for every extra £2 in income.

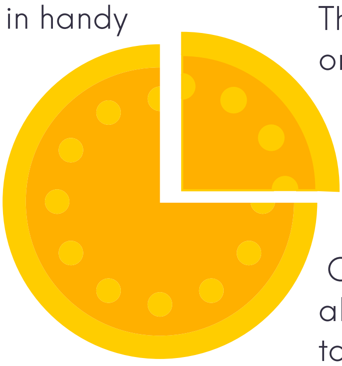
Personal Savings Allowance (£1,000)

Basic rate taxpayers can also earn up to £1,000 a year in interest on savings before paying tax. Even higher-rate taxpayers can earn as much as £500 a year, tax-free.

In fact, if you earn less than £17,500 a year, then thanks to the 'starting savings allowance' you won't pay any tax on your savings interest at all, even if you rake in over £1,000.

Dividend Allowance (£2,000)

If you prefer investing to saving, you can earn up to £2,000 per tax year in dividends before the tax man takes a cut.



This comes in handy if you're investing outside ISAs or pensions or are taking dividends from your own limited company.

Capital Gains Tax Allowance (£12,300)

If you do hold investments outside ISAs and pensions, and they have spiralled in value, take advantage of the capital gains tax (CGT) allowance.

The allowance has been frozen until April 2026, but lets you sell investments for more than you paid, and pocket profits of up to £12,300 without paying a penny in tax. Think shares, art and antiques, or a second property.

Trading allowance (£1,000)

Originally coined the 'ebay allowance', you can earn up to £1,000 every tax year from trading.

Translated, this expands beyond selling on sites like eBay and Etsy to include self-employment, casual services such as cleaning, dog walking or gardening, or profiting from the sharing economy by hiring out for example power tools or camera equipment.

If you're just starting out, the trading allowance means you don't have to register as self-employed or fill in a tax return until your turnover tips over £1,000. However, you might still choose to do both, if you want to pay voluntary Class 2 National Insurance contributions to qualify for benefits such as the State Pension, or want to claim the Maternity Allowance, Tax-Free Childcare or tax relief on a loss.

If you earn more than £1,000 per year, you'll need to choose whether you're better off claiming actual expenses against your trading income or knocking off the £1,000 allowance instead.

Property allowance (£1,000)

Meanwhile the 'Airbnb allowance' lets you earn up to £1,000 a year tax-free from property, for example by letting out your home occasionally, hiring your garage for storage space or renting out your driveway. Even better, it can be claimed per person, so a couple letting out their driveway could pocket up to £2,000 a year in total.

It can also be used against buy to let rental income, providing you don't already claim a reduction for finance costs such as mortgage interest. As with the trading allowance, if you earn more than £1,000 a year

Tax relief on pensions

Tax relief on pensions is slightly different as it isn't a tax-free allowance – but it can still help high earners cut their tax bill.

Most people can pay up to 100% of earnings, capped at a maximum of £40,000 a year, into a pension. Basic rate tax relief is normally added to your pension pot automatically, but higher rate and additional rate taxpayers can then claim back the difference between basic rate and their highest rate of income tax.

So a higher-rate taxpayer adding the maximum £40,000 to their pension would slash their tax bill by £8,000 in tax relief, while an additional-rate taxpayer could claim £10,000 tax relief.

If you've got megabucks to save for retirement, you can even take advantage of 'carry forward' rules. These allow you add together unused pension allowances over the previous three tax years. Including the current tax year, you could potentially get tax relief on up to £160,000 in pension contributions.

However, you can't pay in more than you've earned in the current tax year, and you must have had a pension during the previous years.

Want to find out more?

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Sign-up for our free 7-day course

from property, you'll need to choose whether to claim actual expenses or deduct the £1,000 allowance.

Rent a Room Scheme (£7,500)

Let a room in your own home, perhaps to a flatmate, foreign student or a lodger?
In this case, you're better off claiming the £7,500 rent a room allowance instead of the £1,000 property allowance.

Note this is only for resident landlords, so can only be used when letting a room in your main residence. If you rake in more than £7,500 a year, perhaps by offering food and laundry services too, you can opt to deduct £7,500 from the income before being taxed. You just can't deduct expenses and rent a room relief at the same time, so will need to choose one or the other.

Marriage Allowance (£250)

Get money just for being married or in a civil partnership, if one half is a basic-rate taxpayer and the other doesn't earn enough to pay tax.

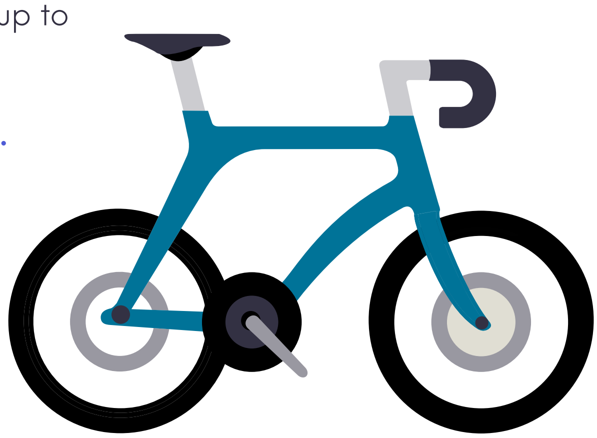
The non-taxpayer transfers 10% of their unused personal allowance to the taxpayer, so the taxpayer pays up to £250 less tax.

See **https://www.gov.uk/apply-marriage-allowance**

You can even scroll back over the last four years, if applicable, and potentially claim a total of £1,188. Worth remembering in a year when many people have seen their income decrease or disappear.

Salary sacrifice

With salary sacrifice, you arrange with your employer to give up part of your salary in exchange for certain things, while neatly side-stepping income tax and sometimes national insurance too.
Salary sacrifice can be used for pensions, childcare vouchers, cycle-to-work schemes, company cars, parking near work, work-related training, home technology and extra holiday days.



About the author

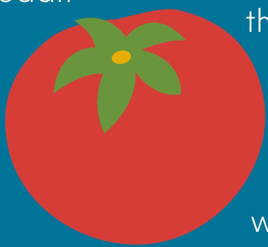
Faith Archer is a personal finance blogger at Much More With Less as well as an award-winning personal finance journalist writing for various companies, charities, and national newspapers including the Financial Times, Sunday Times and Daily Telegraph.
muchmorewithless.co.uk

Explained: the GameStop trading saga

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

What was the GameStop saga?

In late January this year, the internet was set alight by news that a group of everyday retail investors from an online Reddit forum had been co-ordinating buying shares in video game retailer GameStop, sending its share price soaring into the stratosphere. The move was proving increasingly expensive for hedge funds who were betting that the company would collapse, in a strategy known as shorting. By the time the hedgies managed to 'close' their positions and get out of their trades, they had lost billions – much to the delight of the Reddit band of vigilante retail investors, who had successfully managed to stick it to Wall Street.



Who are GameStop?

GameStop are a US retailer of games, consoles and other gaming merchandise, operating stores across numerous western countries. Founded in 1984, the company slid into problems around a decade ago, losing market share to online retailers. Prior to 2021, its share price had last peaked

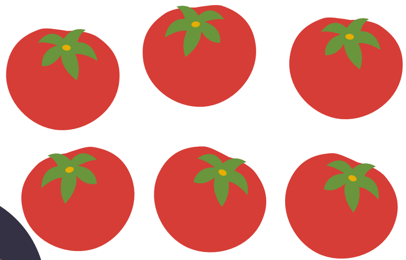
in December 2007, touching nearly $60 per share; by the end of 2019, it was languishing at around the $5 mark.

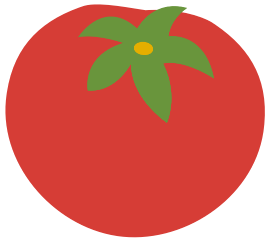
By this time, it was already attracting the attention of hedge funds who saw an ailing bricks 'n mortar business being left behind in an increasingly digitising gaming world, and which seemed to be echoing the fate of the now defunct video retailer Blockbuster. They started taking big short positions, betting that the company would go to the wall. These shorts were initiated in a number of high-profile US hedge funds, including Steven Cohen's Point72, Gabe Plotkin's Melvin Capital, and Andrew Left's Citron Capital.

What is shorting?

Shorting is the process of profiting from falls in stock prices. You may ask, how is this possible?

To analogise, let's say I think tomatoes are going to fall in price - I've heard they're waning in their ability to delight a salad anymore. I pop down the road to see Jeff the greengrocer and ask him for a pack of six tomatoes. But instead of paying him the £1.50 they're labelled-up as, he agrees for me to borrow them and replace them in a week or so, for a 10p fee (there has to be something in it for Jeff).





I then wander down the pub, see some mates, and sell one friend the pack of tomatoes for her lunch tomorrow for £1.50. At this point I have taken in £1.40, but obviously the greengrocer still needs their tomatoes back – the position is still open.

Sure enough, the following week, much to my delight and self-proclaimed genius, news of tomatoes having a major fall-out with cucumbers spreads through the Twittersphere, throwing tomatoes' future in light lunches into question. The price falls to £1 amid the melee. I decide this is sufficient and rush to buy a pack of six tomatoes from the supermarket to give to Jeff, 'closing' my tomato position.

Of the £1.40 I had from last week, I now have 40p – this is my profit from 'The Great Tomato Short', as history will call it.

It's worth noting the risk to this trade though. If the price had not dropped but rather risen to £2 (i.e. the melee actually led to a tomato shortage driving up the price) – rather than making 40p, I would have lost a total of 60p buying the tomatoes back. Replace tomatoes with shares and that's shorting.

How did Reddit investors get involved?

One particular subreddit forum is called r/wallstreetbets (WSB), complete with around 6 million users. Founded in 2012, it has become famous for its meme culture and posts discussing risky investment strategies. Members use these ideas to trade stocks, often through free trading platforms such as Robinhood or Freetrade.

Enter late 2020. Much to the surprise of the short sellers, GameStop was managing to survive the global pandemic: online sales had skyrocketed; costs were coming down through store closures; new consoles were arriving from Microsoft and Sony; and big activist investors had started buying GameStop shares, including 35-year old Ryan Cohen, who had already successful built and sold online pet store Chewy, making himself a billionaire in the process. In September, Cohen proposed to the board a strategic overhaul to focus on online sales. His heavyweight involvement was seen as a game(stop)-changer (sorry).

WSB picked up the idea, and Reddit investors started buying the stock. At this point, not only did it seem a decent bet based on the company's new-found prospects, but moreover, Reddit investors realised that by clubbing together and buying more and more of the stock, they could inflict serious pain on hedge fund short sellers in a move known as a 'short squeeze'.

How do you squeeze someone's shorts?

Going back to our tomato analogy, if all my mates realise that I'm shorting tomatoes, and think it's hilarious to go the supermarket to buy them all to send the price soaring - to £3, to £4, to £5 – then my losses would continue until I'm able to find some tomatoes to close my position. It would be said that they have placed me in a short squeeze (some friends they are!).

In time gone past, a short squeeze has been the favoured approach of billionaire investors to get one over on other billionaire investors.

A good example involves hedge fund titans Bill Ackman of Pershing Square Capital, versus Dan Loeb of Third Point and Carl Icahn of Icahn Enterprises, back in 2013. Supposedly annoyed at Ackman's rudeness during a cycle ride up in the Hamptons (oh, how the other half live), Loeb and Icahn saw an opportunity to buy large quantities of the stock Herbalife, a company that Ackman was very publicly shorting at the time. The squeeze eventually inflicted huge loses on Pershing Square - around $1billion (The shouting match between Icahn and Ackman on CNBC is legendary).

So, what happened to the poor hedgies?

For probably the first time in history, a group of retail funds in a vice. If the hedgies wanted to close their large short positions, they would have to find sufficient stock to do so and pay increasingly large sums for it, crystallising huge loses in their funds. In an almost comical moment of folly, Citron's Andrew Left baited the Reddit investors further in a YouTube video, calling them "suckers at this poker game".

Eventually, the media entered the fray, as did Elon Musk with a Tweet to his 49m followers: "GameStonk!", a reference to the term 'stonk' for 'stock', a potential investment opportunity associated with their now infamous WSB meme.

By the end of January, the stock was up at nearly $350. Although the surge at Robinhood eventually led them to suspend trading in GameStop for a while, once the dust had settled and the hedge funds finally managed to close their short positions, their pain totted-up to the tune of $13 billion in loses, according to financial analytics firm S3. Ouch!

Steps' View

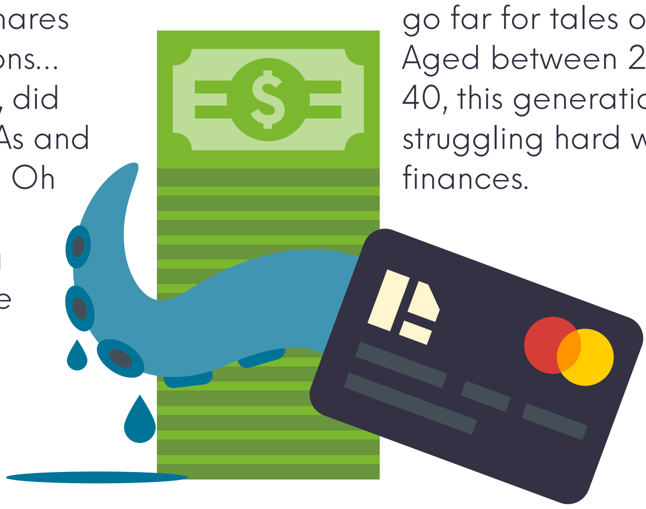
A fascinating exercise in 'power to the people', with generational lines pitting younger, social media savvy millennials from WSB, against what they perceive to be baby boomer greed embodied by Wall Street. This is the ultimate example of momentum trading, and it reminds us that the price of stock, while attached to what a business does, is ultimately determined by the free market mechanism and therefore subject to its whims.

No doubt the Reddit investors found it fun – the saga certainly rattled Wall Street (Andrew Left, er...left shorting by promising he would never take a short position in his fund again). But this is also casino stock trading and should never be undertaken with large sums of money. As long as you are aware of the exorbitant risks of investing in small single stocks such as these, and are prepared to lose 100%, punting very small sums of money in them can indeed be fun.

Financial planning: how to invest for your children

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

Perhaps you're thinking of starting a family, or already have some little nippers. The list of things they need is undoubtedly endless: school uniform (why won't you stop growing!), shoes, bikes, toys, games, stocks & shares ISA, pensions... wait, sorry, did you say ISAs and pensions?! Oh fantastic. Something else for the list.



As extravagant as the gift of wealth might sound, you only need to look to the young adults of today to see the financial hardship they could face down the line. Millennials are a case in point, and you don't need to go far for tales of woe. Aged between 26 – 40, this generation are struggling hard with their finances.

They were the first to pay for higher education after the introduction of tuition fees in 1998. As a result, they have debt averaging £50k following their degrees.

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And that's before they've even started on the typical expenses that straddle young adults: cars, marriages, children, houses, and the like.

The housing market in particular has been brutal for them. It's transferred wealth to older generations and made ownership increasingly difficult. In 2004, 44% of people under 35 owned their own property. That figure is now 34%, and declining.

They've also entered the workforce and suffered two crises in a decade. 43% have zero emergency savings. 44% don't own a pension. Do you think these hardships will let-up for future generations?

The first hurdle: inflation

So, you want to help. First thought might be: I'll just stick some cash in a savings account for when they're 18. This is fine, but with inflation higher than interest rates, and interest rates very unlikely to climb any time soon, all likelihood is that pot will be worth less than when you started.

'Felix Milton, Chartered Financial Planner at Philip J. Milton & Co., agrees:

"The main issue [with savings] is inflation. It's important to note that £100 today is worth more than £100 in 10 years' time, assuming a little bit of inflation. That is what erodes the true value of money."
Tax is your other problem – if you gift more than £3k in a year, and die within 7 years of that gift, it's taxable.

Felix Milton

How to invest tax free for their future

Investing at least offers the chance of some inflation beating returns. Felix adds: "Remember that a child has time on their side, and time and compounding are perhaps the two most powerful forces you can have for investment returns".

Again, taxes need considering, as investing in any old account could attract taxes on the growth of your money (capital gains), or income (dividends or interest) from it. But you need not worry. There are two tax sheltered options which should more than adequately deal with your needs: the junior ISA and the junior SIPP.

Both are set-up by parents

or guardians and sit outside of their tax provisions. Anyone can put money into them, and the parent or guardian will make investment decisions on the child's behalf.

The junior ISA is much the same as an adult one, except you're limited to £9k contributions, to be split however you like between a cash or stocks & shares ISA. When the child comes of age at 18, the junior ISA will automatically switch to a full adult ISA for them to use 'til their young heart's content.

A junior SIPP differs in that your contributions will be topped up by 20% tax relief from the government, to a max of £3,600 gross per year. This means you can put in up to £2,880 a year, and the government would top you up to a maximum of £720.

Like an adult SIPP however, the child can't touch it until they're 57 (having gone up from 55 in 2028), at which point 25% can be taken tax-free and the remainder taxed as income. Think of it as the government lending your tax to you to make extra returns, before asking for it back once you retire.

Choosing investments: Steps top three tips for selecting investments

1 Remember the timeframes you have to invest. For a junior SIPP, this could be anywhere up to 60 years. Longer timeframes enable you to invest in riskier assets for a potentially higher reward. Classically, more defensive assets include cash and bonds, and riskier assets include shares and alternatives.

2 Find competitively priced investments. The longer you're invested, the larger the dent higher fees will inflict on your returns. If you're looking to structure your portfolio to bring down the costs, read our article on core & satellite investing.

3 No matter how long you invest for, individual stock investments are still extremely risky, as you are exposed to the fate of a single company. In our opinion, funds are a much more sensible way to invest, as your money is spread-out over numerous companies.

Deciding which is best: junior ISA versus junior SIPP

The key here is essentially access for the child once they come of age. Felix summarises the decision between the two:

"Some people take issue with the fact: how responsible are you at 18? You will have to weigh up how much you want them to have access at that age. For me personally, I think the Junior ISA can alleviate a lot of financial pressure at a key stage in their lives. You may not be the most responsible, but you might be going to university, and then after that, settling into adult life and the expenses that come then.”

Finding the right investments

Stocks & shares ISAs and SIPPs can invest in the full range of assets and funds out there: shares, bonds, property, alternatives – you pretty much name it. Felix gives his thoughts on investments for these portfolios:

“With ISAs, you really have to consider how much time you have between the age of your child now, and 18 when it becomes legally theirs. The traditional adage is: you need a minimum of 5 years to consider a stock market investment, and ideally 10 – 15 years for a long-term view. This can have a sway on how much [of the child’s portfolio] is in defensive assets versus riskier equities.”

Adrian Lowcock

“With pensions for a child, don’t let your assumptions and thoughts on risk really come into it. The child is young, and should be 100% in the stock market – in equities. When you look at global equity returns over the past 50 years, they are far superior than a low risk steady approach. As long as what you’re investing in is sensible.”

Fund ideas, Adrian Lowcock – Head of Personal Investing, Willis Owen

Junior ISA - Fundsmith Equity

“Terry Smith has a long term focus and invests in large companies around the world which he believes offer the potential for long term growth. He looks for companies with strong cashflow generation, enduring brands and defendable patents.”

Fundsmith Equity

Investment Objective
Capital Growth
Sector
IA Global
Size
£20,282m
Manager
Terry Smith

Number Holdings
29
Risk & Reward (1-7)
Low risk High risk
1 2 3 4 **5** 6 7
Type
Fund

Junior SIPP - ASI Global Smaller Companies

“A global smaller companies fund which offers the potential for long term growth and the global focus means the fund can respond to changing opportunities overtime. The focus on change ethos which runs through the fund means it is well suited for investing over the long term.”

ASI Global Smaller Companies

Investment Objective
Capital Growth
Sector
IA Global
Size
£1,489m
Manager
Harry Nimmo
Kirsty Desson

Number Holdings
48
Risk & Reward (1-7)
Low risk High risk
1 2 3 4 5 **6** 7
Type
Fund

Real investor journeys: how I went from earning nothing on my savings to investing for my pension

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

Private investor Woodie Dormandy knew little of investing only at the end of last year, and was sceptical it was for someone like him, a freelance translator. But after five years of being self-employed, and with a niggling feeling he needed to do something about his pension, he dusted off his thinking cap and took to learning about how it all works. Here, we talk to him about his journey from financial sceptic to SIPP portfolio investor.

Profile

Name: Woodie Dormandy

Age: 35

Occupation: Freelance Spanish & Italian translator

Time Invested: <12months

Location: London

What made me think about investing

Q: What was the state of your finances before investing?

A: I've always been relatively comfortable in managing my finances. It's not an area I pay much attention to, but I generally keep on top of what's coming in and going out. Apart from the mortgage on my flat and student loan, I haven't had much debt; no excessive credit card debt et cetera. In more recent years I'd been saving in a simple savings account, and there was a pot of money left over from an old workplace pension.

Q: Did you know much about investing?

A: Nothing, apart from the odd bit of jargon like 'hedge fund' or 'ISA'. I thought it was for one of two types of people: rich people with enough money that they could afford to gamble some of it in stocks and shares; or 'finance geeks' – people who found investing interesting on a personal level. I didn't consider myself in either category.

Q: Why did you start considering investing?

A: Well, I became a

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self-employed freelancer 5 years ago. Aside from the small pension pot from my old job, I always had this voice in the back of my head telling me that I needed to sort out a pension for retirement. It was probably my mother's voice. A friend had mentioned self-invested personal pensions (SIPPs) and I knew they involved investing in the stock markets but that was the limit of my knowledge. The one thing I did know was that my savings account had just terrible interest rates paying me nothing, and that at those levels, I would never be able to get my savings anywhere substantial over the long term.

How I set about learning

Q: Did you find it difficult learning about investing?

A: Yes, it wasn't easy to learn at first. I found that whatever I looked at there was an assumption I knew what I was looking for, which meant jargon and terminology I was not familiar with. It was either that, or other bits of information that were too simplistic and impractical for going out there and doing something about investing.

Q: How did you come across Steps to Investing, and did it help?

A: The same friend who mentioned the SIPP told me about it. And yes, it solved a lot of the frustrations I was having. The website had plenty of materials that were very clear and straightforward, and I signed up to the free 7-day email course which takes you through everything you need to know to get going.

Defining my goals

Q: What were your goals?

A: Put simply, the goal was to save as much money as possible for my pension. I had a pot from a previous employer, but 5 years had gone by since I'd added anything. I wanted something that was flexible: that I could add to regularly, or not, depending on what was happening in my career. Also, from what I'd learnt I knew that I had a very long time to play with in terms of my investment horizon – 30 years or more – so I could afford to take a fair bit of risk in the stock markets. The plan was that, as retirement approaches, I would pare back risk and switch my investments to safer assets.

Deciding which investment platform was best for me

Q: How did you select an investment platform?

A: I went with AJ Bell as they have been around a long time and I wanted peace of mind and someone I could trust. I also thought account opening looked easy, and I read they had thousands of customers on their platform.

Q: What about cost?

A: The fact they advertise themselves as low-cost also drew me to them, but to be honest,
it's the one area I thought was a bit opaque. There are so many figures and differently named charges, it's hard to actually calculate what your investments are going to cost. One figure, please!

Q: Robo-Advisers didn't pique your interest?

A: Well, my plan was to use active funds and choose them myself. Even though the fund management is farmed out to someone else, at least I know they're a trusted professional and that (hopefully) they've been doing it a few years. Robo-Advisers just seemed too novel and detached from the process. At the end of the day, this money is substantial to me, so I wanted human beings involved.

Choosing investments for my portfolio

Q: Which assets did you decide on for your portfolio?

A: I decided on just shares. I felt that with my time horizon I could afford to take more risk in the stock markets and ignore bonds and cash for the moment. As my plan was to diversify
by using collective funds and different geographical markets, I felt that for my risk profile
shares were the way to go.

Q: Did you have an investment plan?

A: Yes, I'd made some decisions beforehand on fund selection. Passives were out for the moment – I didn't mind paying a little extra for active funds and the potential

mitigate the risk of picking rubbish funds, I used an AJ Bell buy list to help me start and then I whittled it down according to my own criteria.

Q: What was in your criteria?

A: Aside from actively managed funds and investment trusts, I also wanted a substantial portion invested in the sustainable sector as this approach fits in with my personal mantra. I didn't feel single stocks were appropriate for my pension as they seemed too risky. And as I mentioned before, I wanted to spread my investments across different funds aimed at different markets across the globe. In the end, around 50% of my portfolio went into sustainable funds, and I diversified geographically across the UK, European, American and global fund sectors.

How it went / how it's going

Q: How did it feel pressing the 'buy' button?

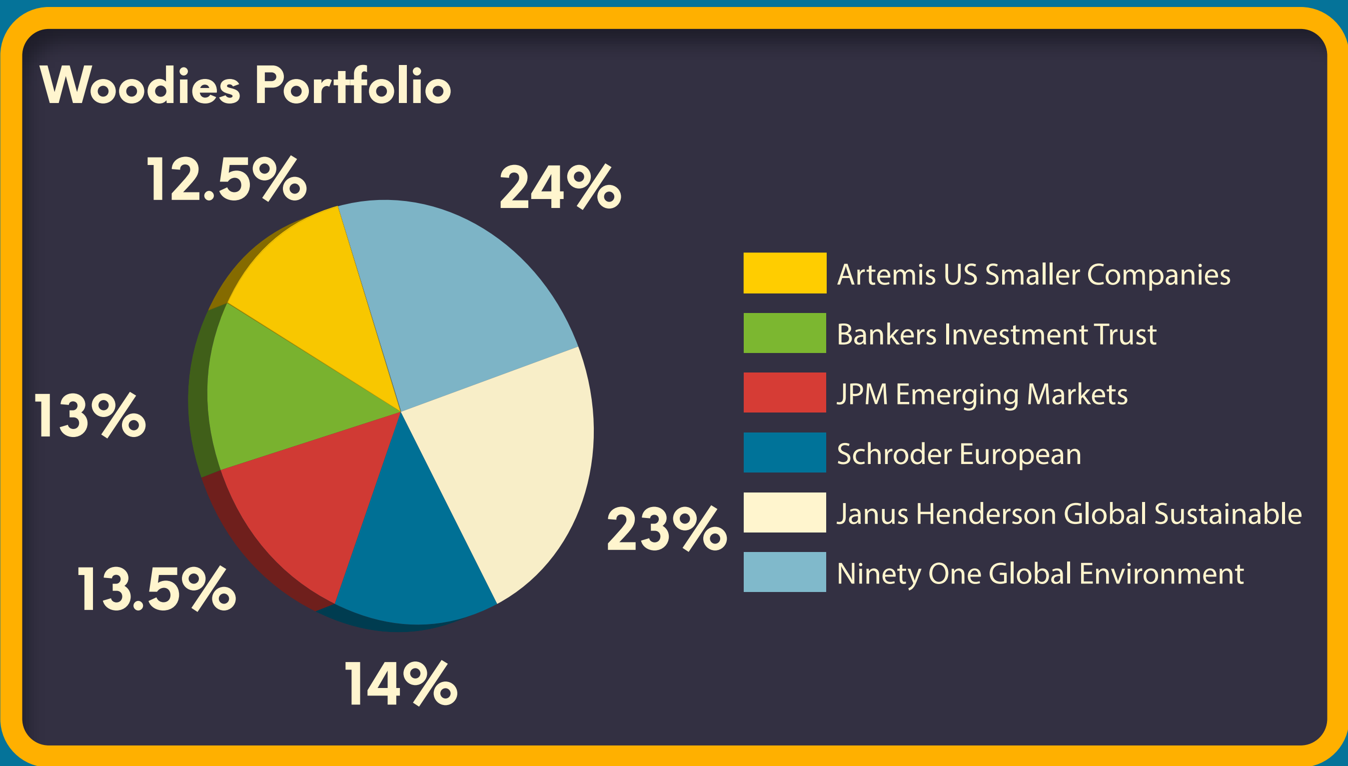
A: I can't believe I'm admitting this, but it was actually very exciting! After a few weeks I did freak out a little because my entire portfolio dropped into the red. Fortunately, I was mentally prepared for stock market dips, and low-and-behold, a few weeks later, they'd rallied and were all back in the black. And I'm pleased to say that since, performance has continued to be good. It's been fun – I've got an app on my phone and I enjoy checking what's going on every few days.

Q: Are you a lifelong convert to investing?!

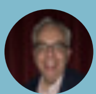
A: Yes! Well it was so easy I decided to open a stock & shares ISA for any surplus money that wasn't going into my pension. I've copied my SIPP portfolio for the moment as I just wanted to get going with something that was better than a savings account, but I will look at how to tweak it soon to better suit my ISA goals. I know this is a risky approach with shorter term savings, but having seen my SIPP go up roughly 7-8% since November, I feel it's much better than a savings account which would have gone backwards during this time when accounting for inflation.

Podcast

Listen to Woodie chatting to Steps to Investing here.



Industry: low cost funds aren't always best

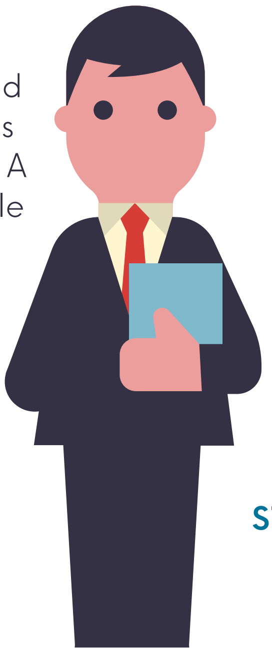


By **Edward Bowsher,**
Financial journalist

Fees lower across funds

The cost of investing in funds is falling. Fund management firms are cutting fees and, for the most part, that's a good thing. If a fund manager charges less, there's more money left over for investors. However, the increased popularity of low-fee funds has created a problem for investors.

Before we discuss that problem, let's focus on the good news and see where fees are being cut. A recent example is M&G. In January, the fund manager announced it was cutting fees on 45 of its funds.



These cuts included the M&G Optimal Income fund, where the charge has fallen from 0.9% a year to 0.65%, and the Global Dividend fund, where the charge has come down from 0.9% to 0.7%.

And there should be more fee cuts to come. A survey of fund management bosses by the private bank, Brown Brothers Harriman, found that 52% of senior executives in Europe expect to cut fees this year.

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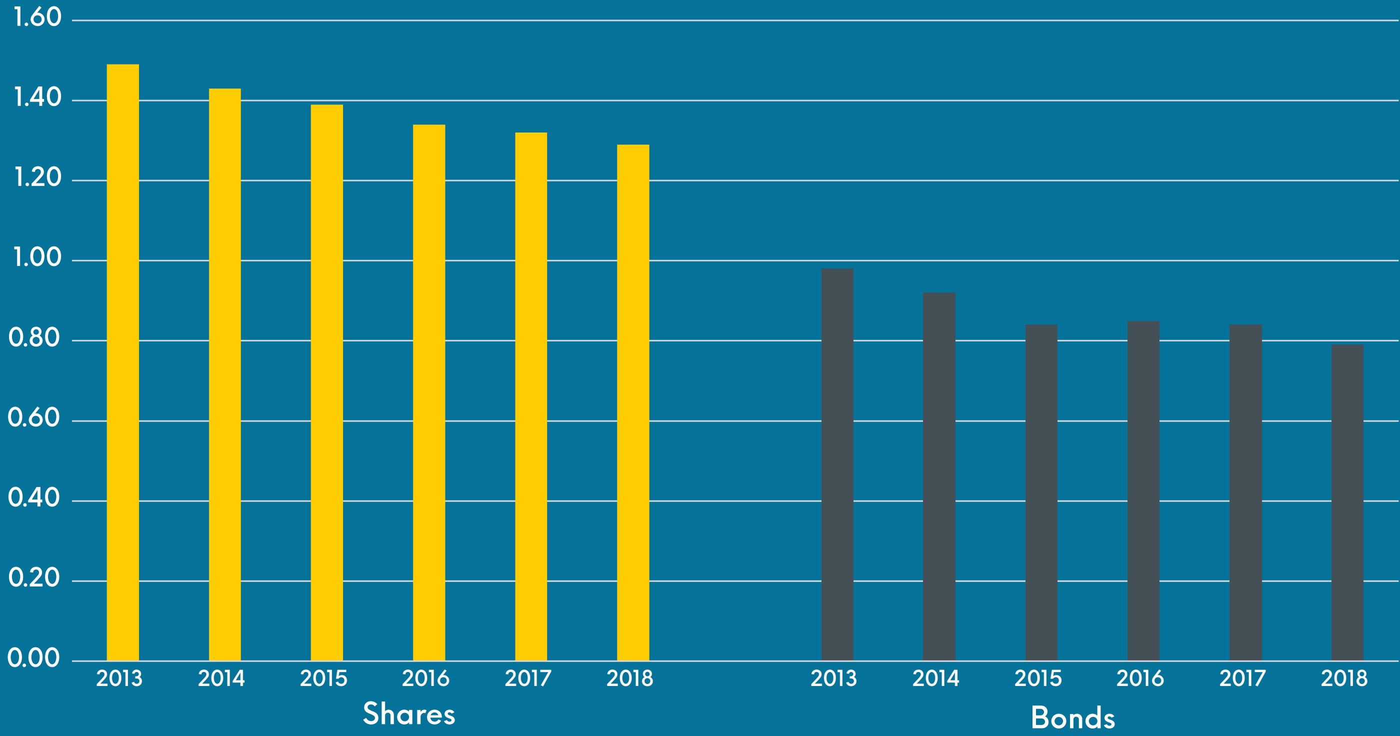
Ongoing charges figure (OCF) falls across funds



Note: Data excludes exchange traded funds, and is weighted towards where assets are held.
Source: Investment Company Institute tabulations of Morningstar Direct data, looking at UCITs regulated funds across the European Union.

On top of the fee cuts, several investment trusts have abolished performance fees – these higher fees were levied if a trust's investments performed well. We've also seen 'early bird' discounts to encourage investors to put money into new funds. And some funds have introduced sliding scale arrangements where fees fall as more money is invested in a fund.

There are several factors driving the fall in fees. Firstly, we've seen increased transparency. Until 2013, fund investors in the UK would pay one overall charge which would be split between the fund management company and a financial adviser. New regulations meant investors had to pay financial advisers separately and that greater transparency encouraged investors to focus more on charges.

More recently, the FCA has introduced rules obliging fund management firms to conduct annual value assessments. The firms must assess whether charges for a fund are reasonable in relation to costs, investment performance, and the quality of service provided.

There has also been a spate of mergers across the asset management industry. One of the biggest was the merger between Standard Life and Aberdeen in 2017, which created the largest asset manager in the UK. Mergers normally reduce costs and that can lead to lower fees – competitors are then under pressure to reduce charges in response.

However, the biggest driver of lower fees has probably been

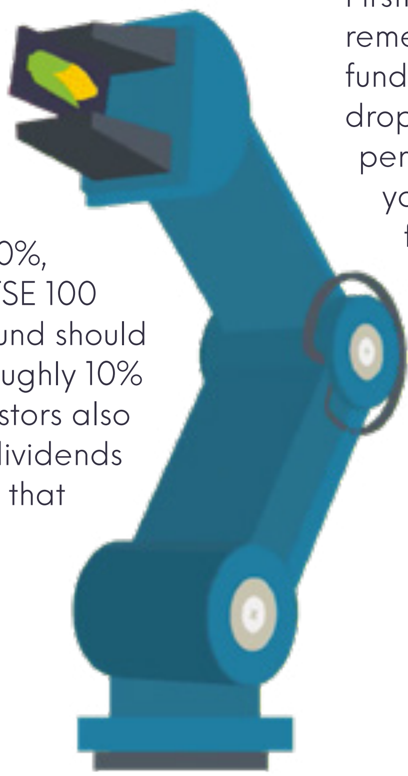
the rise of passive investing. Traditional investment funds are 'active' funds – they employ a manager or group of managers who select stocks for a fund.

Normally these managers are highly paid and some of them are good at picking stocks.

Passive funds, by contrast, don't employ fund managers. Instead they invest in all of the stocks in a particular index. So, a passive FTSE 100 fund invests in all of the stocks in the FTSE 100. In the US, an S&P 500 fund invests in all of the stocks in the S&P. Some passive funds are structured as regular funds known as open-ended investment companies (OEICs), just like many active funds; others are Exchange Traded Funds (ETFs). As the name suggests, ETFs are funds that can be traded on the stock market, just like a share.

Passive funds are normally cheaper than active funds because they don't have to pay salaries to expensive stock pickers in the City. Some passive funds are also extremely large which gives benefits of scale.

You could also argue that the performance of passive funds is more predictable. If the FTSE 100 rises by 10%, then a FTSE 100 passive fund should rise by roughly 10% too. (Investors also receive dividends on top of that rise.)



So, is the rise of passive investing a good thing?

Well, low fees are certainly a good thing, and if competition from passive funds is pushing down fees on active funds, that's a plus.

But there are two issues. Firstly, investors should remember that passive funds will never deliver jaw-dropping, market-beating performance. If you want your portfolio to grow faster than the Footsie, a FTSE-100 passive fund can't help you. But the equivalent active UK fund at least gives you the chance of outperformance. It all depends on the skill of the fund manager.

The second issue is wider and is a problem for the market as a whole. Thanks to passive investors, the most popular shares become ever more popular. That's because most indices are 'cap-weighted.' In other words, the larger a company, the bigger its weighting in the index.

Video: What are passive funds?

Let's imagine that the total value of the FTSE 100 is £1 trillion and its largest (imaginary) company, ABC plc, is worth £100 billion. That means ABC plc comprises 10% of the value of the Footsie. So, ABC's shares then comprise 10% of the FTSE 100 passive fund. As more money is invested in the fund, 10% of the new money is invested in ABC.

That may sound fine, but you often find that the largest companies are trading on pretty high valuations. That's certainly the case in the US at the moment. Companies such as Amazon, Microsoft and Netflix are very large and trading on high valuations.
But as long as more money keeps coming in, the passive funds are obliged to keep on buying these stocks regardless of their valuation. Meanwhile, less popular companies with lower valuations may continue to be unloved. Passive investing has helped to create a lop-sided market.

And that's where the opportunity for active fund managers lies. They're not obliged to buy the likes of Amazon and Netflix. They can focus on the companies that are being ignored by the passive-driven market, and which may deliver better returns for investors over the next decade.

You can also look at this in terms of 'momentum' versus 'value.' Momentum investors like stocks that have already gone up on the basis that they will continue to rise.

Value investors prefer stocks that look cheap when compared to profits or a company's assets. Momentum has had a great run over last decade; now it may be value's turn. If you want to invest in value, look at active funds.

About the author

Ed Bowsher is a freelance financial journalist who has been investing since 1997. His previous jobs include Deputy Editor of MoneyWeek magazine and Editor of The Motley Fool UK. He also used to present several programmes on Share Radio. As a freelancer, he's written for the Financial Times, MoneyWeek, ETFStream and others.

Economics & Markets: Ben Seager Scott thinks inflation and recovery on its way

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

- **Markets and investors expecting economic recovery**
- **Inflation likely - real assets, inflation protected bonds and economically sensitive shares could do well**
- **UK market looks positive on exposure to global economic recovery and Brexit concerns abating**

Stock markets have performed strongly on stimulus

To the casual stock market observer, our all-encompassing pandemic, complete with morbid milestones and grisly periods of isolation that have straddled most of 2020 and into 2021, was just a flash in the pan. "It's interesting", says Ben Seager Scott, head of multi-asset funds at broker Tilney Group and portfolio manager of £7bn of client assets, "through the course of 2020, global markets were actually up year-on-year, which speaks to the power of optimism and, more importantly, stimulus measures".

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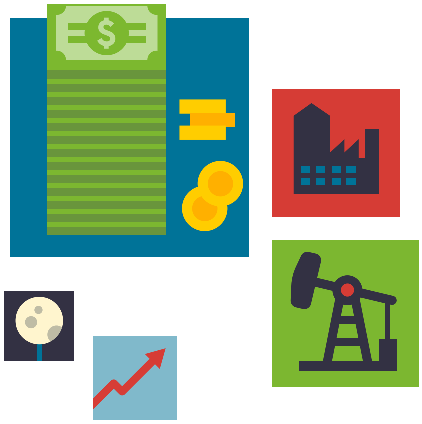
Stimulus has indeed saved us from greater misery. It has two elements: governments do it by spending lots of money and taxing less (fiscal stimulus); central bankers (i.e. Bank of England) do it by printing money and reducing interest rates (monetary stimulus). When economies are under attack from crises, these actions help carry injured businesses through the battle, bandage their wounds and keep them alive. This stops good businesses going to the wall for reasons out of their control, and enables the broader economy to bounce back faster once the recovery begins.

In parallel, investors see these actions and become soothed that economies won't break nor recessions entrench, and pile back into the markets on the expectation of a quick economic recovery down the line. Markets are, after all, forward looking.

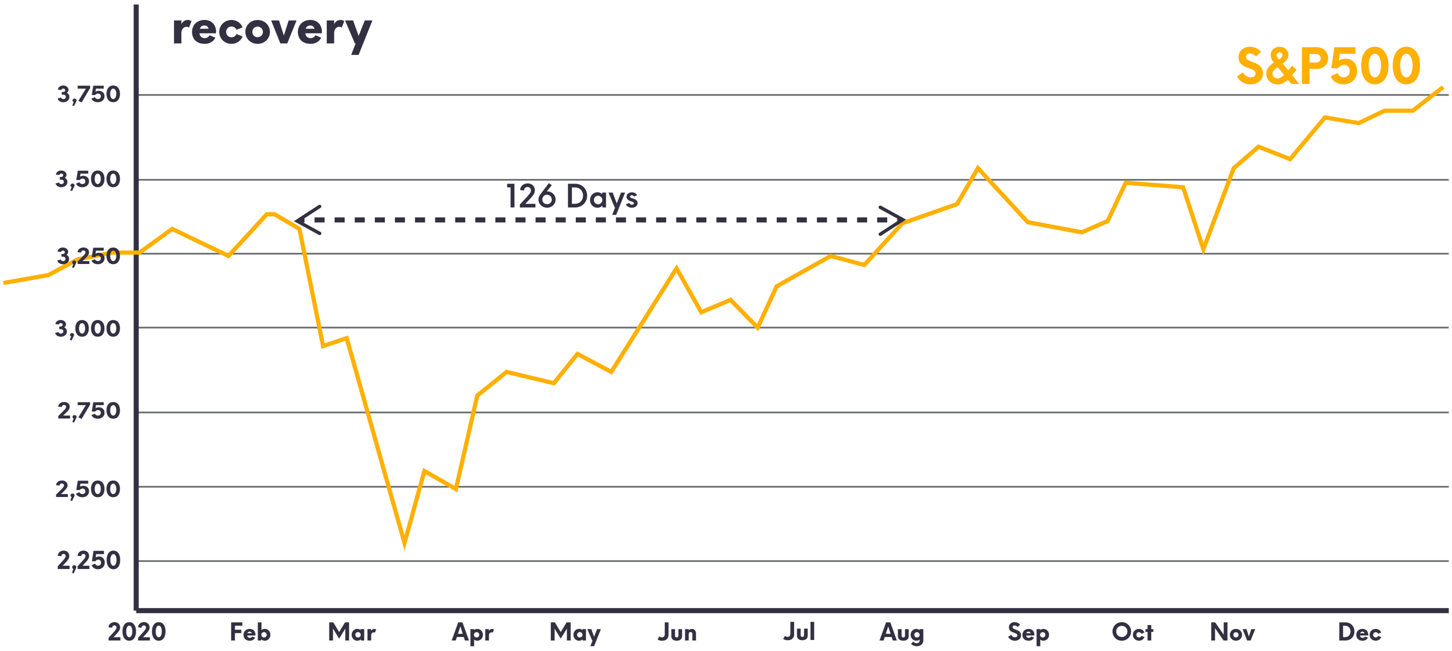
Boy does it seem to work. The US S&P500's meandering journey from pre-pandemic high to plunging 35% in just 6 weeks to recovering to brand spanking new record highs took just 126 trading days. The MSCI World Index – a basket of large and mid-sized company shares across 23 developed markets – saw pre-pandemic highs of $2,350, but by the end of 2020, was up near the $2,700 mark.



Having enabled stock markets to perform strongly over the past year, Ben notes that the biggest risk to market exuberance "is the potential withdrawal of stimulus. You'll notice that central bankers have been going to quite significant lengths to signal that [supportive] monetary policy will be here for some time. There are similar noises from governments."

"As always we have to separate the economics from the stock markets. Where we are now is that there's a lot of optimism in the [stock] price. Markets are broadly expecting long-term economic growth. There's a good outlook around economic recovery. But because a lot of the economic reopening, particularly in western nations, is still some months away, and we've had a difficult 2020, in

Stimulus induces rapid stock market recovery



Video: What is Inflation?

particular Q4 with a lot of the UK and Europe in lockdown, there's a chance that the economic data gets tougher before it gets better...which could in turn impact [market] sentiment. So, [stock markets] could be bumpy."

There are signs that inflation will come through

With vaccines being delivered into arms and economies on the brink of re-opening, commentators have moved their fears on from the pandemic to worrying about inflation. Ben remarks it "is very much on my radar, particularly medium-term. For the best part of a decade we've been used to not having sustained inflation, and people forget how much inflation can erode the real value of assets over time. And I think all of the criteria are in place to see inflation coming through."

"What we have now is extremely supportive monetary policy combined with fiscal policy. Now we have both of those forms of stimulus, plus other fundamental drivers of inflation, for example companies looking to move away from efficient and fragile just-in-time supply chains to more robust processes, for example onshoring, which could add cost. This could lead to inflation over the medium term."

So, is there a way for investors to invest in rising inflation? Ben thinks so: "Any time you have inflation, your mind immediately goes to real assets". This means investments in physical assets. It could be infrastructure, property, land, commodities, and the like.

In bonds, Ben points to inflation protected US government bonds, known as treasury inflation protected securities or TIPS, as these pay out a rate of interest that's linked to the key measure of inflation – the consumer prices index (CPI).

More widely however, Ben thinks that shares "have a solid ability to adjust for inflation, as these are businesses, so can pass on higher costs to their customers". Specifically, he points to more economically sensitive stocks, including smaller companies as well as stocks referred to as "value" – cheap stocks, often in 'old-world' unfashionable industries such as energy or financials.

Ben thinks to be avoided for the moment are actually the pandemic growth stock "winners" from last year. Growth stocks are firms that are growing their profits very rapidly, a good example being some of the big technology firms such as Amazon and Facebook. He thinks these are "slightly sensitive" to inflationary pressures, for technical reasons, but could also face some ire from politicians down the line as "they have done very well out of Covid-19 and could come under pressure to return some of that benefit."


Ben Seager Scott

The UK market is a coiled spring, from Covid-19 but also Brexit

Ben says when it comes to the UK markets, he leans towards a "positive short-term outlook". He thinks there are encouraging signs, including a rapid roll-out of the vaccination program and relatively robust online retail sales figures demonstrating a willingness to spend rather than save.

"What's interesting about the UK [is that] we've had...2020 largely in lockdown, so there's a bit of pent-up demand from that, but even before then, there was a sense that there was a lot of pent-up demand from businesses and consumers around Brexit. All of this could spur on the UK economy [in 2021]."

He adds that the market also has a tilt to value stocks, which as he mentioned before, are more economically sensitive and could therefore do well through a recovery – "sectors such miners, oil & gas, and financials". But also, that "the majority of the UK market derives its revenues from overseas, so in that sense the market is geared into a global economic recovery."

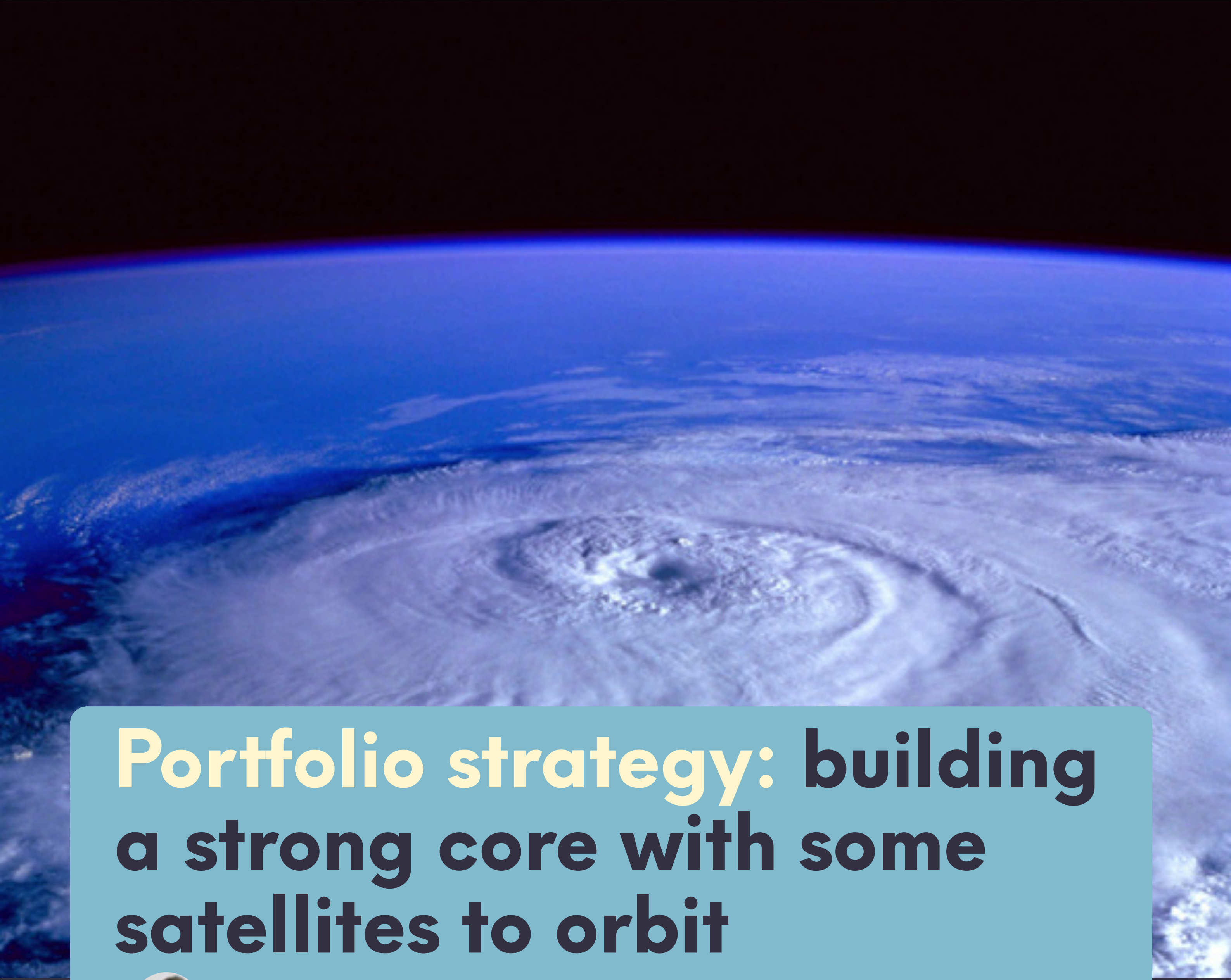
Ben's top 3 investment opportunities

1. "With inflation potentially rising, within bonds, as I said before, I would look to TIPS. An easy way to do that is a passive tracker or ETF for quick exposure, and to hedge the currency. We're using the Lyxor US TIPS Sterling hedged ETF."

2. "If you want some value exposure, you could go for a FTSE-100 tracker, but our preference is active management, so Liontrust Special Situation, or Evenlode Income."

3. "For economic recovery – although this does take more in terms of risk appetite – I like smaller companies. Two are Tellworth UK Smaller Companies run by Paul Marriage. He's one of the best known and longest standing high quality managers in that space. Or alternatively, River & Mercantile UK Smaller Companies is very good."

	Investment Objective	Sector	Size	Manager(s)	Number Holdings	Risk & Reward (1-7)	Type
Lyxor US TIPS Sterling hedged ETF	Track Barclays US TIPS	Morningstar Other Bond	£3,098m	No manger	n/a	3	ETF
Liontrust UK Special Situation	Capital Growth	IA UK All Companies	£5,578m	Anthony Cross; Julian Fosh	59	5	Fund
Evenlode Income	Income & Growth	IA UK All Companies	£3,752m	Ben Peters; Hugh Yarrow	39	6	Fund
Tellworth UK Smaller Companies	Capital Growth	IA UK Smaller Companies	£322m	John Warren; Paul Marriage	63	6	Fund
River & Mercantile UK Smaller Companies	Capital Growth	IA UK Smaller Companies	£366m	Dan Hanbury	81	6	Fund



Portfolio strategy: building a strong core with some satellites to orbit

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

Let's imagine you've settled on a financial goal, you know how long you want to invest for, and you've got an idea of how much risk you're comfortable in taking. Now what? With a baffling array of fund choices and endless tips and opportunities discussed in the media from week to week, how do you build a portfolio of investments that gets you where you need to go?

You need a portfolio strategy. Without one, many investors end-up holding long, fairly random, over-diversified lists of investments. It all ends-up a bit of a strategic mess and it might not transport your wealth to where it needs to go.

The core / satellite approach is one way of constructing your portfolio. It frames your investments, points them in the right direction of your goals, reduces your overall costs, and enables you to have some fun investing here in one of the oldest and most dynamic investment markets in the world. What is more, core / satellite isn't just a strategy for beginners – anyone with a portfolio can retroactively apply this model.

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An overview of the strategy

Originating out of the US, the strategy has its roots in the idea of blending a larger 'core' of low cost, less volatile, passive investments, such as trackers and Exchange Traded Funds (ETFs), with smaller 'satellite' positions in racier, actively managed products such as funds and investment trusts.

It's meant to deliver the best of both worlds: diversified, plain-old boring market equivalent returns from passive investments, aimed at hoisting you to your goals, blended with the potential for market beating returns from more interesting but risky active funds to give you a little extra juice.

In truth, the strategy has morphed somewhat over time, as many retail investors don't want an entire core dedicated to funds *sans* a fund manager. Here, we discuss the wider interpretation of the strategy and offer some example investments that may fit the mould.

Digging down into the core

Think of the core as the Zen palace at the centre of your portfolio. The majority resides here, likely around 65% – 90%, but typically 80%. It is the strategic, long-term, less risky part of the portfolio that does the heavy lifting towards your goals, and in itself should be enough to get you there.

Depending on your attitudes to risk and timeframes for investing, think of a mix of lower risk shares and bonds that works for your goals and use this structure in the core. It should underpin your portfolio with strength and ballast, and make it less volatile when the proverbial mess hits the fan and markets grind downwards during crises.

Types of 'Core' assets:

- Less volatile mainstream assets (i.e. larger company shares or bonds).
- Developed market investments (i.e. UK or US).
- Low cost multi-asset / multi-manager portfolios
- Also, illiquid investments that may need holding for long periods of time i.e. physical property, Defined Benefit (DB) pensions, Venture Capital Trusts (VCTs), and cash.

Keeping costs down doesn't necessarily mean investing in trackers or ETFs: plenty of actively managed portfolios offer very low management fees for investing in mainstream assets. The City of London Investment Trust, for example, is an actively managed investment trust selecting investments in the large UK company space of the FTSE-100, but has an annual management charge (AMC) of 0.36%. While this is slightly more than a tracker, it is still a very low fee for active management, plus you get the advantage of the investment trust structure with extra features such as gearing.

As the core is fundamentally about buying and holding investments for a long time, it should also be infrequently traded, which serves to lower any transaction fees applied to investments bought through stock exchanges, such as shares of investment trusts or ETFs.

Video: What is gearing?

Ideas for your CORE

Adrian Lowcock – Head of Personal Investing, Willis Owen

L&G International Index Trust

This fund invests across the world, excluding the UK, and is cheap. The fund benefits from one of the most well-resourced passive investors who focus on portfolio optimisation to ensure performance is in line with the benchmark.

Darius McDermott – Managing Director, Chelsea financial Services

Rathbone Strategic Growth

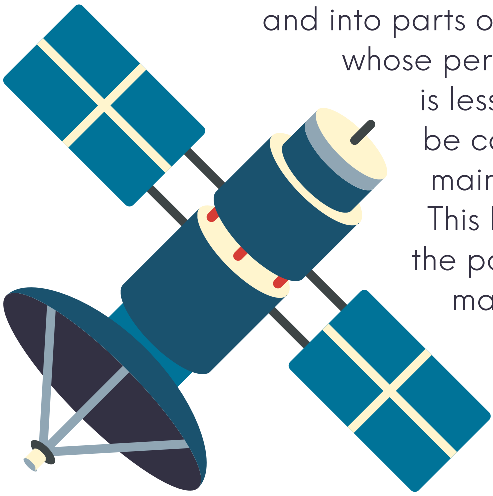
Managed by David Coombs, this multi-asset offering invests in actively-managed funds and investment trusts, as well as passives and direct equity holdings.

David uses a disciplined asset-allocation framework and a forward-looking assessment of how the performance of assets correlate, plus risk and return, as the cornerstone of the investment process. Asset classes are divided into three distinct categories – liquidity (those that can be bought and sold easily), equity risk (shares in companies) and diversifiers (which includes the likes of options and gold).

This rock-solid performer has a target of the Consumer Price Index (CPI) measure of inflation plus 3-5 per cent per annum, over a minimum five-year period. With an ongoing charge of 0.62 per cent, it is also attractively priced.

The orbit for satellites

The satellites make investing fun – these are the racy, interesting bits of your portfolio. Satellites present an opportunity to dial up some risk and try and bat for bigger returns, comforted by knowing that only a small portion will ever be invested in these positions and therefore only smaller relative amounts could be lost in the event of catastrophe.



The extent of your portfolio in satellites is again down to personal preference, and can be anywhere from 10 – 35%, but typically 20%.

Another advantage of this approach is that, while you are concentrating certain risks in order to try and gain a bigger return – for example using niche assets like renewable infrastructure or more concentrated funds – you are also likely diversifying across a more varied set of investments and into parts of the market whose performance is less likely to be correlated to mainstream assets. This balances the portfolio and may offer some protection against broader market shocks.

Finally, satellites can be used to take advantage of shorter-term opportunities as and when they arise, for example the three areas Ben Seager Scott mentions in our interview with him. For these reasons, some investors like ETFs in their satellite positions as they can be traded very quickly and easily and used to take advantage of shorter-term market moves.

Types of 'Satellite' assets:

- Same assets as core, but more aggressive exposure i.e. more highly concentrated portfolios or those more differentiated from their benchmark (higher active share).
- Niche assets (i.e. infrastructure or property though Real Estate Investment Trusts (REITs),
- Emerging markets, frontier markets, or niche markets (i.e. China or India)
- Investment themes (i.e. value vs growth, or technology).
- Smaller companies shares.
- Individual shares.
- Fledgling financial products such as Peer to Peer (P2P) lending or crowdfunding, or cryptocurrencies.

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Ideas for SATELLITES

Adrian Lowcock – Head of Personal Investing, Willis Owen

Jupiter UK Smaller Companies

This fund is complementary to the L&G index fund as it invests in the UK. The focus on smaller companies means it is a riskier investment. The team led by Dan Nichols focuses on companies able to grow their earnings faster than the market average.

Darius McDermott - Managing Director, Chelsea financial Services

Goldman Sachs Indian Equity Portfolio

A young and growing workforce, rapid urbanisation, economic reform, and a move towards digital and technological growth are just some of the trends that have made Chelsea big supporters of Indian equities over the long-term.

This is an all-weather India fund with a well-resourced and experienced team, based on the ground in India and Singapore. It has a solid investment process and we particularly like the many company meetings the team undertake.

The 70-90 stock portfolio has a bias towards medium and smaller companies, so it is heavily dependent on the Indian economy.

Adrian Lowcock

What are the risks?

While the core / satellite strategy provides a good structure to diversify the risks you're taking, it doesn't eliminate them – far from it, as you need risk to gain a return. All assets (pretty much) go down during significant market wobbles. So, no matter how you approach stock market investing – you must remember to hold on tight during these crises and ride it out.

Darius McDermott

	Investment Objective	Sector	Size	Manager(s)	Number Holdings	Risk & Reward (1-7)	Type
L&G International Index Trust	Track FTSE-World ex UK Index	IA Global	£2,472m	No manager	2,263	6	Tracker
Rathbones Strategic Growth	CPI + 3%	IA Volatility Managed	£1,045m	David Coombs; Will McIntosh Whyte	106	4	Fund
Jupiter UK Smaller Companies	Capital Growth	IA UK Smaller Companies	£1,327m	Dan Nickols	83	6	Fund
Goldman Sachs Indian Equity Portfolio	Capital Growth	IA Specialist	$1,368m	Hiren Disani	83	6	European Fund

Investments: unusual ISAs

By **Cherry Reynard**
Financial journalist

Niche investments

Investing can be a dry old business. It can be difficult to get excited about directing your spare cash to some giant bank or mining company. In reality, your ISA choices are far more eclectic and interesting; you could be investing in anything from Justin Timberlake's back catalogue to solar power to new treatments for Parkinson's disease.

Looking for this type of niche investment is not only more interesting, there are sound investment reasons to do it as well. In particular, it can bring diversity to a portfolio. Having a blend of different investments should leave you less vulnerable to the caprices of the stock market and to the fortunes of the global economy. Investments in infrastructure assets or song royalties don't need a strong economy to perform well, for example.

It helps that many of these niche investments either pay a good income or offer the promise of high capital gains. In an ISA wrapper, all income and capital growth are tax free, so using it for this type of investment makes sense. Around three-quarters of people invest their ISA in cash, which offers almost no income and little prospect of capital growth. As such, the ISA benefits are wasted. As with all investments, there are risks. With niche investments, it may be more difficult to buy and sell. It takes time to sell a toll road, for example, or a solar farm. This is very different to, say, HSBC shares, which are traded every day. As such, many of these investments will be structured as investment trusts, where managers don't have to manage inflows and outflows.

Equally, they may be more difficult to analyse with less publicly-available information. Investors always need to be wary of a good story versus a good investment. History is littered with examples of investments that sounded great on paper, but proved unprofitable in practice – forestry is perhaps the most recent example. With that in mind, which areas offer a chance to do something different with your money, but still have a sound investment case?

Doing good

If you are sourcing responsible avocados and recycling all your paper, it seems a shame to direct your savings to polluting companies and the banks that finance them. There are an increasing range of options for those who want to do good with their money.
'Impact' funds are not only targeted on their financial performance, but also on their performance in relation to a number of goals, such as carbon emissions, pollution or recycling. The M&G Positive Impact fund, for example, tells you its 'score' against a number of the UN's Sustainable Development Goals. Baillie Gifford, BlackRock and Aberdeen Standard also offer this type of fund. There are also funds focusing on specific areas – the Schroder Global Energy Transition fund, BlackRock Circular Economy fund and the L&G Clean Energy UCITS ETF.

Another option is to invest directly in renewable energy such as wind farms and solar. Greencoat UK Wind, for example, invests in UK wind farms, while its sister investment trust, Greencoat Renewables, invests in solar and wind across Ireland and Continental Europe. Other options include Foresight Solar or Gresham House Energy Storage. Many of these trusts pay an income of 6%+, rising with inflation.

Private equity and growth capital

Wouldn't it be great to have picked up an Amazon before it was famous? This is the aim with private equity – buy them when they're small in the hope that they'll grow. Private equity groups take stakes in companies at an early stage and realise the capital when they list on the stock market or are bought by another company. More companies are staying private for longer – think Deliveroo, Transferwise, Monzo - leaving plenty of opportunities in this area.

3i is the granddaddy in the sector, but it's had an astonishing run of performance and it can be better not to buy an

investment when it's already gone up a lot. Investment trusts HarbourVest and Pantheon International are 'fund of funds' – investing in a diversified range of private equity companies – and may be another option.

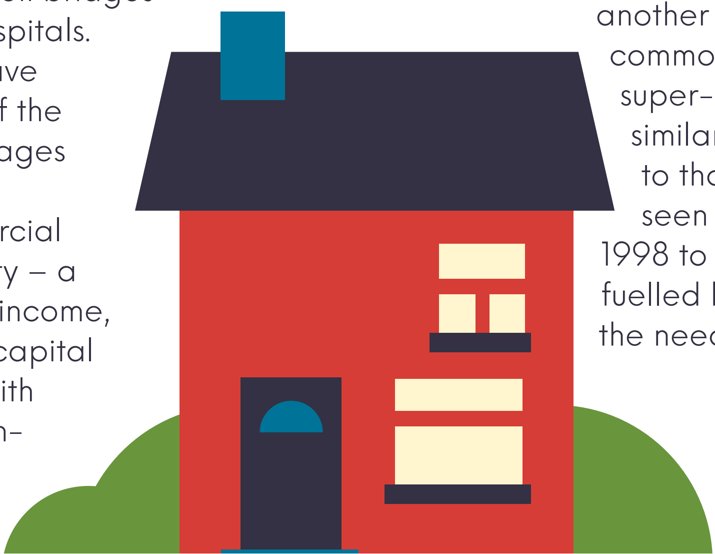
More recently, a new breed of funds specialising in 'patient' capital (i.e. long-term, committed investment in UK businesses) have emerged, such as Jupiter-run Chrysalis or Schroders'

UK Public Private or British Opportunities trusts. Syncona has a similar strategy in the biotech sector.

Video: What are commodities?

Alternative property

Conventional commercial property funds were once a staple of the ISA season, but many have had a horrible time this year and are now locked up. Infrastructure provides an alternative. These trusts include International Public Partnerships, HICL and 3i infrastructure and cover areas such as schools, roads, toll bridges and hospitals. They have many of the advantages of commercial property – a steady income, stable capital – but with inflation-adjusted, government-backed cash flows. These have held up well this year because no matter what happens, people still need them.



Other commercial property options include healthcare – doctors' surgeries, pharmacies and so on – or Civitas Social Housing, which provides housing for disabled and disadvantaged people. Again, these pay a good income and the capital values should be resilient.

Commodities

There has been talk of another commodities super-cycle similar to that seen from 1998 to 2011, fuelled by the need for green energy infrastructure. Building wind and solar farms or electric cars creates demand for specific metals; renewable energy systems consume around five times more copper than conventional power generation systems, for example. Commodities can also provide protection against inflation, which many believe is a real risk as we emerge from the pandemic. Investors have a range of options to bring this theme into their portfolios. They can invest directly in the shares of mining companies – perhaps through a passive diversified metals and mining ETF, such as the iShares MSCI Global Metals & Mining Producers ETF or an actively managed fund such as the BlackRock World Mining trust. They could also invest directly in commodities – the Wisdom Tree Industrial Metals ETP, for example.

And finally...

That Justin Timberlake investment? That's Hipgnosis, a trust investing in music royalties, currently paying around 4.5% in dividends.

An expert view – Anthony Leatham, head of investment trust research, Peel Hunt

Infrastructure has been invaluable this year, holding up well amid the volatility we've seen in markets. That said, investors are paying for certainty. There has also been an ESG tailwind in 2020

Anthony Leatham

and we have seen the sector evolve from just wind and solar farms out into energy efficiency and storage. This is a really exciting area today.

Investors need to be wary on those areas that have done very well in 2020, not overpaying for investments that are inherently volatile and could disappoint. Lots of areas, particularly in Asia, have had a very good run.

Hints & Tips

1. Be careful not to buy when something is fashionable. For example, healthcare and biotech have been great investments this year while everyone has been hunting for a cure for the pandemic, but this has pushed up prices.

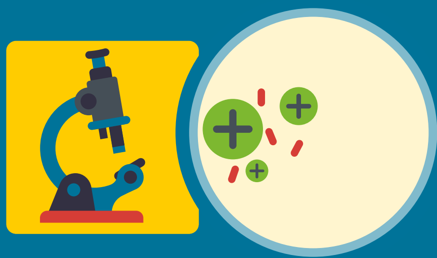
2. Don't be sold on the story. There is a world of difference between a good idea and a good investment.

3. Be patient – some of these areas will take time to come to fruition. Don't expect immediate results.

In contrast, the UK still looks attractive and there is an abundance of opportunities in small caps.

I'd also highlight TR Property as a good one-stop shop for commercial property. It invests in a portfolio of Real Estate Investment Trusts (REITS) across Europe and has an attractive yield.

There are also speciality logistics trusts such as LXI Reit that have done well.



Biotechnology and technology have delivered strong returns this year, but there is still scope for growth. I don't think the technology story is played out. Polar Capital Technology is on a 7% discount to its net asset value, for example, and is run by a very knowledgeable team.

About the author

Cherry Reynard is an experienced financial journalist, working across national, consumer, and trade titles, including the Financial Times, the 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.

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