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Get Investing.

Taking you on a journey from saving to investing

Stacked to the rafters with income ideas!

Income investments that stay ahead of inflation

Is property or pension best for retirement?

Cheap income ETFs for your portfolio

Why young people are flocking to cryptos

+ lots more!

Contents

Taking you on a journey from saving to investing

Note from the editors

Hi Investors,

Welcome to issue 4 of Get Investing.

This issue is all about giving you stacks of investment ideas that generate an income! We've got Faith Archer going five rounds and pitting property against pensions as the best way to fund your retirement; Ed Bowsher analyses the ETF market to find you income ideas that won't break the bank; and we've got Cherry Reynard tackling the looming spectacle of inflation and finding income that stays ahead.

And of course, there's more. In financial planning we assess the impact different levels of inflation could have on annuities versus drawdown options in retirement; our explained article looks at why young people are flocking to cryptocurrencies; we find out about new fund launches and why you might want to get involved; we speak to soon-to-be retiree Mike Wilson about his personal investment journey and the choices he faces with his pension; and we hear what Adrian Lowcock has to say about global markets and where he thinks investment opportunities may be.

All of our editorial is independent! The only payments we receive are for the ads you see throughout the guide – **no commission** is paid to us 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 want to keep up with what's going on, we have a weekly podcast for updates on the markets and interviews, as well as a YouTube channel with weekly tutorials to help you understand investing better.

Happy investing!

Marcus and Simon, Co-Founders

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Personal finance: is property or pension best to fund retirement?

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

Roll up, roll up for the big face-off between property and pensions: which is better to fund your retirement?

Rising property prices, which have surged to record levels since last summer, mean many homeowners are sitting on a small fortune. However, you can't pay bills in bricks and mortar. Turning property into income usually requires either selling your home and moving to a cheaper property, or investing in a buy-to-let.

Meanwhile pensions invest your money in the stock market, with tax breaks to bribe you to lock your money away until retirement.

In one corner, property is solid and familiar, traditionally seen as 'safe as houses'. In the other corner, pensions are less tangible, as your contributions disappear off into investments.

Both have pros and cons, but which will deliver the knock-out blow, so you can live it up after work stops?

Round one: Income and growth?

Pensions and buy-to-let both have the potential for the same winning combination of long term growth and rising income.

Both hold out the hope of increasing in value, whether driven by rocketing property values or surging prices for the assets in your pension, such as shares in companies. Both can deliver rising income, whether as rent on a buy-to-let or the dividends paid by shares.

On the flipside, both also bring the risk of loss, when your investment loses value. Stock markets may be more volatile, but house prices can fall too, as homeowners who suffered from negative equity in the early 90s and the 2008 credit crunch remember only too well.

Looks like it's neck and neck after the first round, as property and pensions can both offer growth and income.

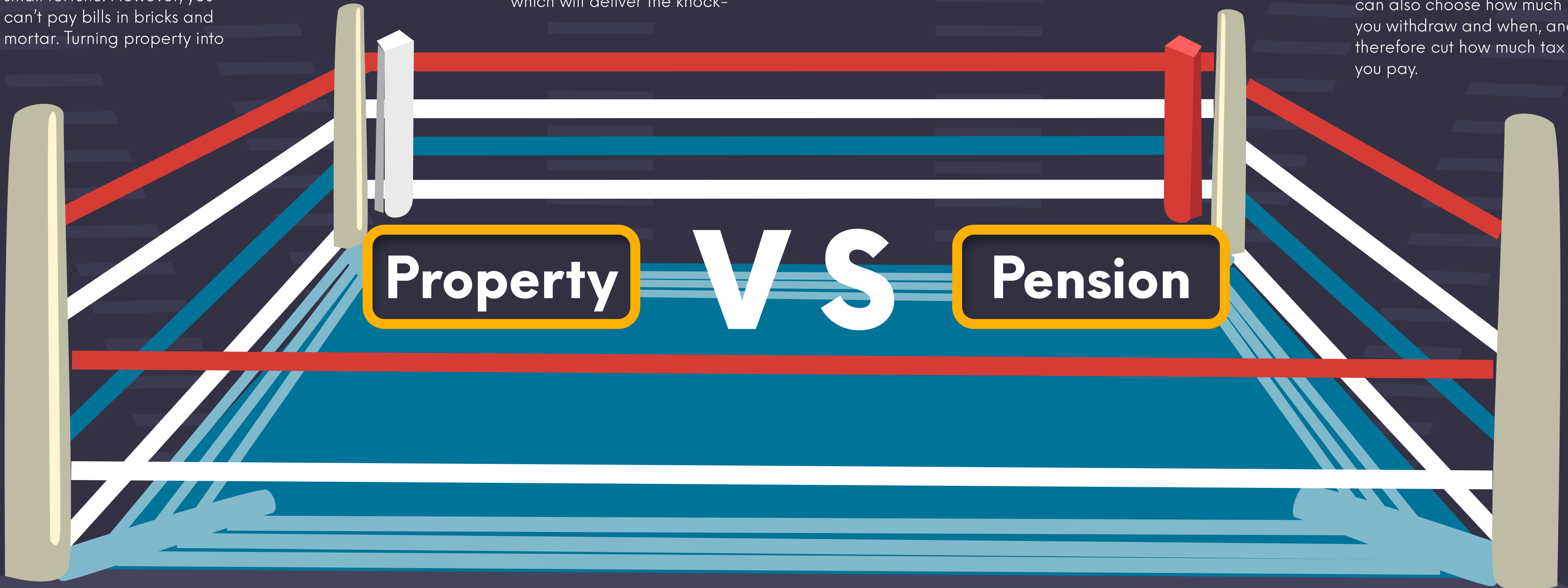
Round two: Tax benefits?

When it comes to tax, pensions win hands down.

With pensions, you get showered with free money.

For every £1 you pay into a pension, the government adds another 25p in basic rate tax relief. If you pay higher rate or additional rate income tax, you can claim even more. Plus, if you are eligible for a pension at work, your employer has to top it up by at least 3% of qualifying earnings.

Money inside a pension grows free from income tax and capital gains tax, and when you finally take money out, the first 25% is tax free too. With some pensions you can also choose how much you withdraw and when, and therefore cut how much tax you pay.



If there's anything left in your pension pot when you die, it can pass to your nearest and dearest free from inheritance tax.

In contrast, the tax bills on buy-to-let can be hefty.

When buying a rental property, you have to pay an extra three percentage points in stamp duty land tax, if you already own your own home. You are liable for income tax on the rent, and the government has whittled away at tax breaks on buy-to-let mortgage interest payments.

When selling a property that isn't your main home, you may also have to pay 18% or 28% capital gains tax on any increase in the value beyond your capital gains tax allowance.

After death, property is counted as part of your estate for inheritance tax purposes, so the tax man could potentially take 40%.

Round three: Time, trouble and expense?

In fact, property involves a lot more time, trouble and expense than pensions.

Buying a property is a pricey business, from scraping together thousands of pounds for a deposit, to forking out for surveyors, stamp duty, searches and solicitors. In contrast, some pensions can be started with just £1.

You will need to find the right property in the right place to generate enough rent to cover chunky running costs such as mortgage payments, maintenance, insurance and empty periods between lettings. Landlords also need to deal with tenants and emergency repairs, or pay a managing agent to do so.

Meanwhile with pensions, the costs are lower, often under 1% a year in fund and platform fees, and more predictable. Maintenance is limited to adjusting the mix of investments from time to time, or paying another 1% or so for an adviser to do it for you. A pension will never ring you up in the middle of the night to fix a leak or present you with the bill for a new boiler.

You can also top up pensions with much smaller sums than buying a whole house.

For an easy life with less expense, pensions definitely score the points in round three.

Round four: Accessing money before retirement?

Two big advantages of buy-to-let are that you can borrow to buy a property, and you can benefit before retirement.

Using a mortgage to buy property gives you the

chance to win big if house prices rise – although if prices fall, you could end up owing more than the property is worth.

You can also tap into the rent from a buy-to-let, or even sell the property, whenever you want.

With a pension, you can't touch the money before you reach 55 at the earliest (rising to 57 from 2028). This shouldn't be a problem if your savings are ear-marked for retirement, but won't help if your circumstances change.

Round four and buy-to-let is fighting back, due to access to mortgages and money before retirement.

Final round: Taking income in retirement?

When you do finally retire, property seems like an easy option. Regular rent is a great replacement for a monthly salary.

However, you will need spare cash to cope with gaps between tenants or to cover unexpected bills. It's also difficult to get hold of money tied up in a house. Selling a property can take months, and even re-mortgaging usually involves fees and paperwork.

With pensions, you face more choices about how to take an income, for those who aren't lucky enough to have a 'defined benefit' or 'final salary' pension paying out a known amount.

You will need weigh up whether to whip out your whole pension pot, use it to buy a guaranteed income known as an 'annuity', or leave it invested and withdraw money when needed, known as 'drawdown'. Overall, it's far easier to dip into a pension, although if you get it wrong, the money could run out before you do.

In the final round pensions edge ahead. They may require more decisions, but are far more flexible, and you can always pay an adviser to help.

Property vs pensions: the winner?

Property and pensions have both delivered some fantastic returns over the last few years.

Both have their pros and cons. Property is familiar, with regular monthly payments and the chance to use a mortgage to punch above your weight.

But if you want an easy life, pensions offer far more flexibility in later life, at lower cost and without the unexpected bills and hassle. Plus, you can snap up free money from tax breaks and employer contributions, to boost your retirement savings.

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: why crypto is gripping the imagination of the young

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

Recent research by the Financial Conduct Authority (FCA), the UK's regulator overseeing all things financial, reveals that take-up of cryptoassets in 2020 outpaced that of stocks & shares ISAs. For the most part, the appeal is to younger males under 35.

With risks abundant, we explain what they are, and speak to young crypto enthusiast Jay to find out why young people are taking the plunge into these volatile financial assets.

What are cryptoassets?

Often used interchangeably with 'cryptocurrencies' or just 'cryptos', put simply they are forms of digital cash that are impossible to counterfeit. Most are powered through peer-to-peer computer networks using a type of distributed ledger technology (DTL) called blockchain. There are two elements: the crypto part, which refers to the cryptographic nature of blockchain that underpins transactions, making them highly secure; and the currency part, represented by 'tokens' or 'coins', which are used as digital money and a store / transfer of monetary value. New coins are released as a reward for mining – where computers known as 'nodes' compete to verify 'blocks' of underlying transactions and add them to the ledger. The supply of coins is not determined therefore by a central bank, but rather pre-determined by an algorithm.

If it this still doesn't make a lot of sense, let's revert to Brit-turned-US host of political satire Last Week Tonight, John Oliver, who best described them as "everything you don't understand about money combined with everything you don't understand about computers". Spot on.

Why are they hitting the headlines?

A splashy mix of soaring prices across coins alongside a sense of foreboding given the price volatility inherent. Celebrity geeks such as Elon Musk have poured a mixture of fuel and cold water onto the fire, sometimes almost simultaneously, leading to eye-watering swings in prices.

This attention has sucked in buyers. Recently, the FCA released a review of the UK crypto market. It found 2.3m adult Brits now own cryptoassets, up 400,000 (21%) from a year ago. What's striking is that crypto ownership used to a middle-aged male thing; a technology side-bet punted-on amongst a slightly wealthier crowd. But over the past year, buyers have been younger – mainly below 35.

What's the concern with so much interest?

New adults buying into cryptos now outstrips new adults opening stocks & shares ISAs, at 2.7m accounts, up 300,000 from the previous year. Commenting, Becky O' Connor, Head of Pensions and Savings at Interactive Ivnvestor, says: "The middle ground of slow and steady long-term investment in global stocks and shares could potentially lose out in popularity, despite the good it can do for people's long-term financial security through ISAs and pensions."

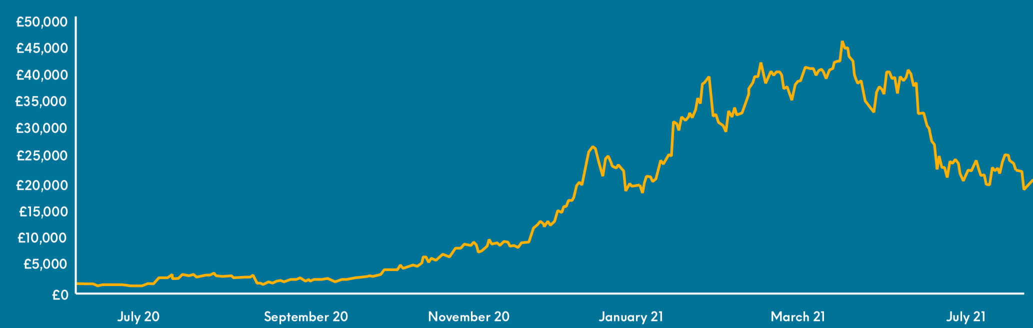
What is more, cash ISAs still remain the most popular ISA, with 9.7m account holders. O'Connor points out the dichotomy: "It appears the nation's savings and investment predilections are split between two extremes: the ultra-low risk, low-return world of cash savings, where the value of money is being eroded everyday by inflation, and the high stakes, get-rich-quick-or-lose-it-all-trying world of crypto.

What do the professional investors say about cryptos?

They have a flurry of concerns. Firstly, that pricing these is anyone's guess. Try using the random number generator from TV's Countdown. Essentially, investors gain a view on whether a financial

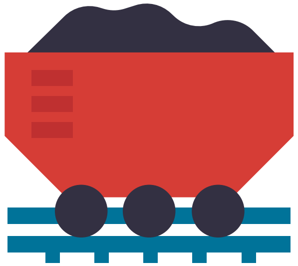
Price of Bitcoin soars over past year

Source: Coindesk; as of June 2021



asset is cheap or expensive by understanding its intrinsic value – what they think it's true worth is. For a company share, you can look at business fundamentals like the cash coming in and out, now and in the future, and pin some value on that. When it comes to cryptos, they argue there's little to point to except a belief in the underlying technology and the forces of supply and demand.

Secondly, they ask 'what's the point?!' of an asset used largely for speculation, and to some extent criminality. While we remain in a state where no one pays their bills or gets paid in Bitcoin or some other coin, they cannot be seen as a credible alternative currency. Some say they have similar features to commodities, and are becoming a form of 'digital gold' and should protect against inflation, but there is insufficient long-term price evidence to support this.

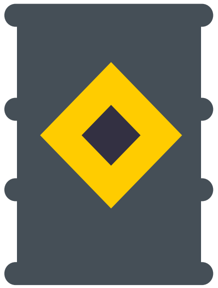


Thirdly, analysts point to environmental concerns on account of the exorbitant levels of energy used to 'mine' cryptos. Some reference entire sovereign nations that use less energy than single coins, for example Sweden which uses less energy than Bitcoin (although this seems to change depending on which source you're reading).

The final concern is a regulatory one. As guardians of the monetary system, central banks will not want to cede control that easily. What happens in a financial crisis – how do you inject liquidity into the system or control interest rates? Already, regulators in the UK have banned retail investors from buying cryptocurrency derivatives, and the cryptocurrency exchange Binance, and in China, regulators have banned financial institutions from handling them.

So, why are young investors buying into cryptos?

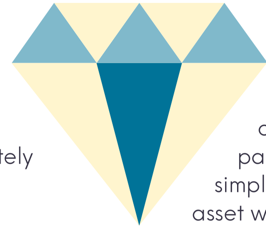
Commentators, perhaps offhandedly, say the young are just getting FOMO (fear-of-missing-out) and jumping in off the back of some meme they saw to try to make a quick buck. This may be true for some, but there are also genuine enthusiasts who believe cryptos are changing an unfair world and offer a route to side-stepping state control and greater privacy. Steps to Investing spoke to one such enthusiast, Jay from South London, to find out why he and his keen community of young crypto buyers have been flocking to the stuff.



What's driving Jay to invest?

A key part of the attraction is the idea of liberty from state and central bank interference, and whomever may be pulling those strings. Rightly or wrongly, sovereign currencies are manipulated from time to time. Quantitative easing is a good example of this, as currencies weaken as new money is printed.

This is open to abuse and corruption, he says, by unelected officials at the top, and disadvantages the economically underprivileged who hold most of their wealth in cash. Bitcoin is free of these strings, and is open source code, so completely transparent.



Pinning a value on a coin comes down to the pre-determined supply and planned scarcity. Bitcoin, for example, has a hard cap of 21 million coins, which will be released in a diminishing schedule over the next 120 years. This makes it rare. Geologists think gold, on the other hand, may be less rare than we think; a large find could obliterate its value. There is no risk of this scenario for Bitcoin. And it's more than just a digital coin - Bitcoin represents an impressive network of more than 100,000 computers or 'nodes', which means what you're purchasing into is something substantive.

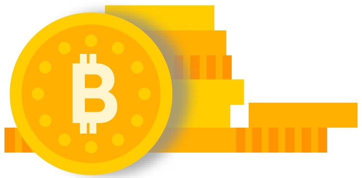
He also believes that price volatility will abate over time as it moves into mass adoption, stabilising with increased liquidity and the involvement of different types of holders, investors and traders, leading to greater ownership and participation. It's simply a function of an asset whose value has grown from nothing to almost a trillion dollars in 12 years, and is the price to pay for fixed supply and intervention-free markets.

And then there's the energy requirement – a key bugbear of cryptos. Jay points out that this is a complex issue as it's part of what makes them secure. Energy consumption comes in mining, which involves various bits of work to verify 'blocks' of transactions and add them to the ledger. For example, one bit of work is solving a mathematical puzzle with 10^{77} possible answers. This requires energy to compute, and there's no way around this 'proof of work' – there's no way to cheat the system without expending more energy. This coupling of security to energy means an attack on the system becomes so expensive that it is uneconomical. Jay's argument extends further in saying we expend energy in all aspects of our lives, from

brushing our teeth, refrigerating our food, to driving to work, and there are plenty of applications in the world that use energy far more wastefully than cryptos. What has Instagram brought to the world, he muses, apart from mental health problems and a shameless sense of narcissism? What is more, mining operations are truly global – requiring simply a computer and some energy – and so can be put in places where there's access to carbon-free energy, or other forms that would have been naturally wasted i.e. using flared gas from oil rigs. And as for helping out criminals? Pish – Jay remarks that transactions attached to illicit activities are actually very low.

The Steps to Investing view

Love them or loathe them, cryptos are here to stay. There's no doubting the technology is exciting and its potential applications widespread, and for the libertarian, it must seem like the dream currency has finally arrived. But from an investment perspective – which is what we really care about - the pros raise fair concerns over the risks involved given the extreme price volatility and difficulties involved in valuation. Invest if you wish, but perhaps dabble and never commit large sums of money.



Investing directly in coins can be done through a cryptocurrency exchange, for example Binance or Coinbase. The FCA's ban on Binance refers to its regulated activity in the UK, however Binance is based in the Cayman islands, so it won't affect users wanting to trade cryptos on their exchanges. An easier route might be to go through trading apps like eToro. The FCA's other ban has also meant buying indirectly using exchange traded products is not possible, but you could invest via proxy through companies that provide blockchain technology, or indeed in a range of these firms through a passive fund called the Invesco Elwood Global Blockchain UCITS ETF.

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Financial planning: gauging inflation's impact on annuities vs drawdown

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

When facing retirement, deciding the best way to draw on your pension can be a tricky choice to make. 'Do I shelter in the safety of a secure income from an annuity, or go into drawdown and navigate my own path?' Add the potential for higher inflation - rising prices in the goods and services we buy - and a headache begins to form. As inflation risks build for the first time in a decade, retirees need to consider the impact on their options.

"It's been a long time since the spectre of inflation has loomed quite as large as it does today", says Tom Selby, senior pensions analyst at AJ Bell, a top-three UK investment platform. "While a dose of mild inflation is nothing to be scared of and can simply reflect a healthy, growing economy, significant price rises would have a disastrous impact on those taking an income in retirement – particularly if they last for years rather than months."

"Investors need to remember that, while price rises may still be relatively low at the moment, inflation expectations are at their highest level for over a decade. It is therefore sensible to consider how a prolonged period of higher inflation might affect your spending power in the future." "Rising inflation can be devastating for those trying to retain the value of their life savings", adds Becky O'Connor, head of pensions and savings at Interactive Investor, another top-three UK investment platform. "It is particularly a problem for retirees who want to preserve their capital as well as maintain an income from their pension."

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The impact of inflation could be significant

You can begin accessing your pension pot age 55 (57 from 2028). If you're considering going beyond taking a tax-free lump sum (up to 25% of your pot is tax-free) and want to start generating an income, you'll generally face a couple of choices at this stage: to buy a secure income stream in the form of an annuity, or take money out as needed.

Either way, inflation will bear down on the outcome. Using data from AJ Bell, we've analysed the impact of differing levels of inflation on income in drawdown or when purchasing an annuity. Given the consumer prices index (CPI) – a measure of inflation – has averaged at around 2% over the past 20 years, we've looked at rates of 0%, 2% and 4% to gauge the impact.

Going your own way - income through drawdown.

Let's assume you have a £100,000 pot and you want £5,000 per year to cover retirement costs. One advantage in drawdown is that you can remain invested and therefore continue generating an investment return. Let's say you manage a 4% return after costs.

In the chart over the page, we see that with no inflation factored in i.e. you continue to pay yourself £5,000 for as long as possible, the fund lasts **37 years.** If we account for 2% inflation, then you would need to bump-up your payments by 2% each year to be able to afford the same things. This means after 5 years, you would be paying yourself £5,520. In this scenario, your fund will last **25 years**. In our 4% scenario, you would need a 4% raise in your income each year to keep an even keel. So, after 5 years

In summary:

Remember that once you trigger flexible income drawdown, your £40,000 annual allowance on

which you can claim tax relief reduces to £4,000. This is irreversible.

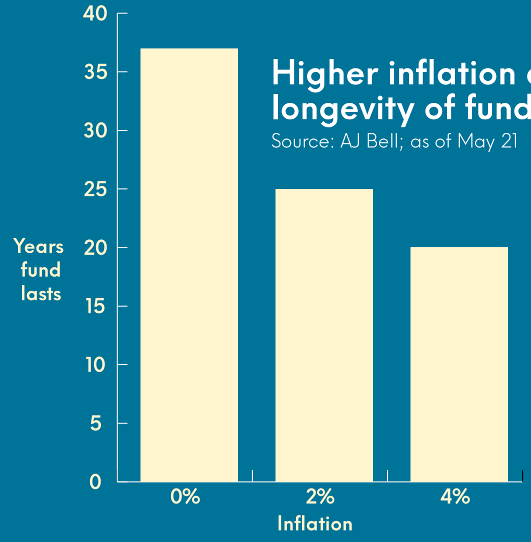
Top three tips for drawdown

Chartered Financial Planner Felix Milton, Philip. J. Milton & Co.

1. You should consider using non-invested assets first to meet your spending requirements. Investments within your pension are likely to keep pace with inflation better than other assets you already hold such as cash.
2. Make sure to calculate what you need and only take that rather than a fixed amount each time.
3. Consider the taxation that will apply to any withdrawals. If we go through a period of sustained inflation, it is likely that it will take some time for tax bands to catch up, meaning that you could inadvertently fall into a higher tax bracket with a low withdrawal!

Higher inflation affects longevity of fund

Source: AJ Bell; as of May 21



you would be paying yourself £6,083. At this level, the fund would last **20 years**.

Relieving any financial anxieties – income through an annuity

An annuity – a guaranteed income stream – is bought from an insurer. There are a few options, but generally you can either buy an income stream that remains flat, this is known as a level annuity, or one that increases either by a set amount or is indexed to rise with inflation. Whatever you decide it can be a big decision, because once that pot is handed over, so is control over the savings that you spent so many years squirreling away. That said, also remember that buying an annuity is not an all-or-nothing option in the sense that you could use 50% of your pension pot to buy an annuity, and leave the rest invested.

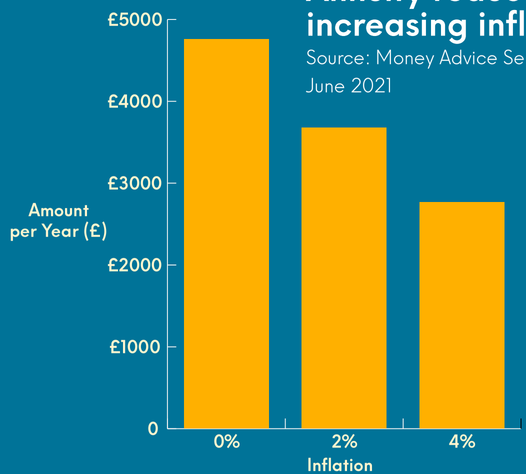
We used the Money Advice Service annuity calculator **(see here)** to assess differing annuity rates purchased using our £100,000 pot, after factoring in our three levels of inflation. Keep in mind rates change all the time. We've also assumed a healthy individual aged 65 (see Felix's tip opposite if you have medical conditions).

The results show that, with no inflation factored in, you would receive £4,758 per year. With 2% inflation, it would drop to £3,677 per year. And with 4% inflation, £2,767 per year. Which means at 4% inflation, your income would be over 40% lower than a flat rate annuity!

What is more, as annuity rates are linked to interest rates they have been paltry

Annuity reduces with increasing inflation

Source: Money Advice Service; as of June 2021



In summary:

Tip – You can also buy annuities that decrease their payments, if you have other funds that may come available later on.

been historically. Data from Moneyfacts, the consumer finance website, show only a marginal improvement on last year's average annuity rate (see chart), following years of sitting in the doldrums. This, alongside the pandemic, may go some way in explaining why Brits are pushing back their retirements by as much as 2 years.

Annuity rates remain low

Source: Moneyfacts, Lipper; as of May 2021

What's the best option for my pension?

There's no easy answer to deciding how best to fund retirement and, of course, it's highly dependent on your personal circumstances. Some retirees don't like the uncertainty of drawdown when they've got bills to pay. Others would not want to give up control over a pot a lifetime in the making. For some, the solution may be in blending both.

Recently, the government launched PensionWise **(see here)**, a free guidance service to help you start figuring out what's best for your circumstances. At Steps to Investing we also believe that, while a lot of decisions can be made by you in the accumulation phase of building your wealth, when it comes to drawing down your pot, the complexities surrounding tax and financing retirement mean a financial adviser could be well worth their weight in gold.

Top three tips for annuities

Chartered Financial Planner Felix Milton, Philip. J. Milton & Co.

1. If you have any health conditions at all, you should ask a financial adviser to assist with securing an enhanced annuity rate. This is a personalised rate tailored to your health circumstances exactly. These are often higher than the standard annuity rates so always worth checking out!

2. If you do not need the guaranteed income immediately, but think you will later on, waiting and securing an annuity when needed is likely to yield you a better rate than now.

3. If you think inflation is increasing, you could defer buying an annuity should you think interest rates will rise to combat the rising inflation. Higher interest rates lead to higher annuity rates.

Real investor journeys: choices I face on precipice of retirement

Learning about saving and investing

Profile

Name: Mike Wilson

Age: 62

Occupation: Head of Investment Trust Sales, Janus Henderson Investors

Location: London

Q: Beginning in early life, were finances discussed much?

A: I grew up in Leyton, Bedfordshire. My father worked for a print company. Money wasn't really discussed, but we were encouraged to work to earn money for spending, of which I had to give up 10% to contribute to the running of the house. It felt very penal at the time, but it taught me a very good lesson about the discipline of money and why managing it matters.

Q: When did you start to develop a savings habit?

A: I followed my father into the print industry, and I went into print sales. We were paid in cash (yes, cash!), and I used to take £25 every month to the bank to save for the future. I never missed a payment and I never thought too much about it, and in hindsight I don't know where I developed this savings habit but it proved very worthwhile down the road.

Q: When you did start to think about investing your money?

A: When I joined the City as a sales guy, my eyes were opened to the benefits of investing. I was a very good saver – in fact, when I came to buy my first house I had a quarter of it in cash – so I wish I'd known more about investing before that point as I could have made it work a lot harder.

Q: What was your first investment?

A: It was an Asian fund run by Provident Mutual. My father-in-law helped me into it as he was a financial adviser at the time. And it was sage advice – the investment did very well and the success whetted my appetite for investing. But I must admit, my expectations were wildly unrealistic as I thought I could get 45% return each year.

Q: Appetite whetted, how did your interest grow?

A: I started experimenting with investing and learning about key concepts such as diversification and how it provides for a smoother journey. But this didn't stop me buying outrageously risky things as well, as young people tend to do. One such idea was a Japanese warrant fund. I bought it at $29 / share following a period where it had returned 1000% over 3 years. 'What could go wrong!' I thought to myself.

Well, what went wrong was the bottom fell out of the Japanese market, and it continued to descend for a very long time. I eventually sold out at 23¢ / share. Disaster from an investment perspective, but the lesson it taught me about investment risk was a valuable one.

Getting going with a pension

Q: Did you receive a pension from the get-go?

A: Yes, at the print company. But I wasn't there long, and I can't for the life of me find it.

Pension Finder

Q: What about when you joined the City?

As a lot of financial companies did at the time, Invesco Perpetual offered a very generous defined benefit (DB) scheme whereby if you worked there for 20 years you ended up with a final salary pension. While I was only there 16 years – now, at retirement, it has proved to be the most valuable investment I ever made. With interest rates so low, transfer values of DB schemes can be attractive, so I took the opportunity to transfer its value into a self-invested personal pension (SIPP). This enabled me to manage my own investments as I would my ISA.

Q: You then changed jobs, what pension awaited you at the next firm?

A: At my current firm, Janus Henderson Investors, the pension is what they call a defined contribution (DC) scheme, which is where a certain amount is paid into a company pension by both yourself and your employer. These types of workplace pensions are fairly standard for the private sector these days, and many of us will be automatically included due to something called 'auto-enrolment'.

Now, with retirement just 5 weeks away, I'm facing a few choices with what to do with my SIPP and my DC workplace pension.

Approaching retirement

Q: Have you taken advice?

A: Yes. At first, I was required to take advice by law when I dissolved my DB scheme into my SIPP, as these are very valuable and the government doesn't want people giving them up without proper advice.

But approaching retirement, I've continued to use the adviser to help me with issues around my finances and tax. You can go and read about this stuff on the internet, but tax legislation is complex and changes all the time, and financial advisers bring a specific set of skills and deal in this every day and will know things you don't. But I don't take investment advice – I continue to manage my assets as I feel through my employment I sufficiently know what I'm doing.

Q: What plan have you formed for retirement then?

A: I like to keep my finances simple, so when I retire I will transfer my workplace DC pension into my SIPP to keep it all in one place, which will then go into drawdown. I also have my ISAs. Aside the 25% tax-free amount you're allowed to take, the SIPP will provide taxable income, whereas my ISAs will provide tax-free income. As there are also various tax-free allowances to consider; juggling the most efficient way to draw on all of my options is the reason why I've used a financial adviser.

Across my SIPP and ISAs, one strategic outcome I'm targeting is funds that provide dividend income – payments from shares. Over the last few years, I've built-up investments that provide an income profile that I can rely on. For these reasons, I use investment trusts due to the pretty stable income they provide. This is because they have a feature called a revenue reserve, which enables the trust to put away extra income in the good years so that it can continue to pay out during the poorer years when underlying companies may be reducing their dividends.

During Covid, even though dividends were widely slashed, none of my investment trusts cut the income they paid.

Q: What about buying an annuity – an insurance product which provides a guaranteed income stream?

A: These are absolutely right for a number of people as you are guaranteeing the income you will receive for life, so there's lots of security. The downside for me was giving-up that pot of money which you then can't pass to your family or children.

Of course, what some people do is use some of their pension pot to buy an annuity that covers the costs of living, to protect themselves a little bit. But with interest rates and annuity rates so low they don't appear great value at the moment, so I've decided against them for the time being. If interest rates go up in the future, and I hate to say it as my life expectancy reduces as I get older, those annuity rates may become much more attractive, so it's not a 'no' forever.

Mike's top tips for building a pension

1. Make your money work. Cash savings are earning you nothing – you have to take some risk to get a decent return. Crossing a road involves risk. Getting on a plane and going on holiday involves risk. We can't achieve anything without taking risks.

2. Always think of investments as long term. Pretty much any stock market graph over long periods of time go from bottom left to top right, so you just need to be patient. And the earlier you can get in the better.

3. During crises and moments of market panic, don't sell – BUY. If you'd been a brave person when the Covid pandemic broke, you'd be a very happy investor now.

Want to find out more?

Click the button to sign-up to our free, 7 day quick-course: a hop, skip, and a jump through everything you need to know to get started with investing.

Sign-up for our free 7-day course

Industry: why consider getting involved in new fund launches

By **Simon Longfellow**, Co-Founder at stepstoinvesting.com

Funds, of all flavours, come and go. Some get pensioned off as they no longer have something that investors want to buy. Others get merged to make bigger more stable offerings. They also get launched as new investment trends emerge or fund management companies develop new skills and think they can develop products that people will buy.

The process for getting involved from the get-go differs markedly for the different types of funds (see video overleaf for differences). For example, for investment trusts, there's a formal 'Initial Public Offering' or IPO, where private and professional investors can apply for shares before the launch date. For open-ended funds on the other hand (whether they just track a basket of shares or use a fund manager to pick companies), they can be launched without the IPO process. The fund manager can 'seed' the fund with their own money and may also do a roadshow to professional investors to get them on board. Private investors can then buy shares once the fund is launched.

But while the processes for getting involved can differ by fund type, the reasons why you might want to get involved from day one stays the same.

Video: What are funds and investment trusts?

Why consider getting in at launch?

First off, there's the fact you're going to be in right from the ground up – and you can follow the fund for its total lifetime. Quite often you see fund performance quoted as 'since inception' – which is the performance you'd be getting if you got in on day 1. In other words, if you believe in a fund's strategy and are happy to see it play out over time.

For funds that trade on an exchange (investment trusts and ETFs), you'd normally pay a dealing fee when you buy shares, and for some investments you'd pay stamp duty (a 0.5% tax on buying shares), but if you go in at launch on these types of investments then you won't pay either.

What are the risks?

For investments listing through an IPO you might be subject to 'scaling back' – that's where the offer is very popular and over-subscribed, so you might not get what you applied for. Conversely it might not launch at all if there is not enough demand!

Whether or not there is an IPO process, remember for brand new investments the strategy and/or fund manager could be unproven and there will be no actual performance track record to review.

ESG funds lead the way

Often, fund launches follow trends: where one fund manager launches a successful product, others follow. Demand is a big part of this, but so is the suitability of the investment structure. For example, there has been a well-established trend over the last 15-20 years of new investment trust launches being in the alternatives space. That's because esoteric assets like windfarms, student debt, infrastructure and warehousing are often best suited to the investment trust structure where the fund manager can take a longer-term view as they don't have to worry so much about demand (or lack of!) for the shares in the trust.

Funds using Environmental, Social and Governance (ESG) factors to pick stocks are another such trend. As we all try to find ways to save the planet, it's perhaps no surprise that there has been a glut of new launches in this space. And these span all types of fund too, and also both types of fund management: active and passive. That being said our view is that the active structure serves ESG investing better as fund managers can take decisions about what meets their definition of good ESG scores. Here's a few examples.

Liontrust ESG Trust

Investment Objective
Capital Growth

Sector
N/A

Size
-

Manager
Peter Michaelis, Simon Clements and Chris Foster

Number Holdings
25-35 E

Risk & Reward (1-7)
Low risk 1 2 3 4 5 6 7 High risk

Type
Investment Trust

Liontrust ESG Trust (ESGT)

Applications for this closed on 29th June 2021 and as the name implies, it is very much an investment trust.

The Company invests in a diversified portfolio of 'sustainable' companies. Sustainable companies are those that Liontrust believes will capitalise on and help drive key structural growth trends that will shape the sustainable economy of the future; will provide or produce sustainable products and services; and have a progressive approach to the management of environmental, social and governance issues.

The trust will normally be invested in a concentrated portfolio of between 25 and 35 holdings in these sustainable companies, and they will be from around the world and with the highest sustainability scores. These will be determined by the Liontrust Sustainable Investment Team's established investment process, the team is 13 people strong with a 20-year track record.

Aquila Energy Efficiency Trust PLC

This is another investment trust. It went through the IPO process in May and shares started traded on 2nd June this year. That means you can no longer take part in the offer, but shares are now being bought and sold on the stock exchange just like any other company. The trust is aiming to generate 'attractive returns', mainly in the form of income, by investing in a diversified portfolio of energy efficiency investments.

Aquilla Energy Efficiency Trust

Investment Objective
Income

Sector
AIC Renewable Energy Infrastructure

Size
100m

Manager
Not Disclosed

Number Holdings
N/A

Risk & Reward (1-7)
Low risk 1 2 3 4 5 6 7 High risk

Type
Investment Trust

Beyond ESG

One other way to get involved is when an existing fund looks to grow in a big block – this only really applies to investment trusts as open-ended funds grow and shrink every day according to demand. This is typically done through a C-share (Conversion share) issue.

How does a C share issue work?

The closed-ended nature of an investment trust doesn't actually stop them from getting additional money to invest. They simply need to get permission from shareholders to issue new stock, sometimes done via C shares.

The proceeds from issuing C shares are typically held in a separate pool on a temporary basis, with the money invested in whatever assets the investment manager is targeting.

They allow trusts to raise money and allow investors to subscribe for new shares without negatively affecting existing shareholders. The C shares will convert to ordinary shares when either a predetermined level of investment is achieved or on a predetermined date.

Polar Capital Global Financials Trust PLC Share Offer

Here's one example of a C-Share in action. Polar Capital Global Financials aims to generate a growing dividend income together with capital appreciation by investing in a global portfolio of financial stocks primarily issued by banking, insurance, and property companies.

In summary:

- New launches very buoyant, especially in ESG space.
- There are risks attached to getting in on the ground floor, but also benefits.
- Register for alerts with your platform and they will email you when new launches come up.
- Make sure a new launch fits your plan – don't go for it just because it's new and shiny.

The Company is issuing C-class shares which are expected to convert to ordinary shares following the announcement of the semi-annual dividend in August 2021. It's aiming to raise £100 million to add to the £310 million it already manages.

Polar Capital Global Financials
Investment Objective Income and Growth
Sector AIC Financials
Size £312m
Manager Nick Brind, John Yakas, George Barrow
Number Holdings 84
Risk & Reward (1-7) 5
Type Investment Trust

How do you get involved?

- Most platforms promote them to their existing customers. For IPOs this is known as an 'intermediaries offer'.
- Platforms often have a web page where you can register interest and/or apply.
- They will make the prospectus available – and usually some marketing materials from the fund manager. A prospectus is a hard to read, legal document, but it gives all the info and outlines the risks involved in detail.
- This will also outline the minimum amount you have to apply for - £1000 is not uncommon.

Global markets & economics: why we could be in for 'Roaring 20s' 2.0

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

Adrian Lowcock thinks the unusual nature of the Covid-induced recession and massive government spending could see years of unbridled economic growth, but inflation could be a risk to investors. Look to the UK, value, and smaller companies if you want to join the party.

In his new book, Dr Nicholas Christakis – Yale professor and social epidemiologist – predicts a second 'Roaring 20s' once Covid-wrought misery is fully behind us. He points to remarkable similarities with the Spanish Flu of 1918, which – alongside Flapper girls and bootleg moonshine - followed with a new-fangled sense of freedom and indulgent consumerism, booming growth, massive infrastructure spending, and widespread prosperity for around a decade.

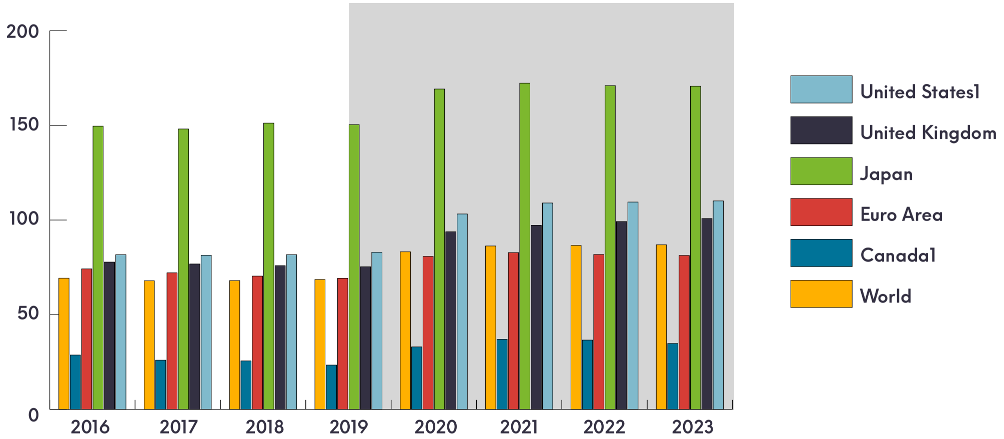
Adrian Lowcock, markets expert and independent commentator, thinks there are three encouraging elements to the prospect of a strong recovery and higher economic growth further out.

Adrian Lowcock

Firstly, shutdowns mean the economic wounds were self-inflicted, so the recovery is likely to be swift: "This wasn't a recession in a traditional sense – this was a conscious decision by governments and global economies to shut down. It means the recovery is likely to be materially different...which gives you a stronger rebound." Secondly, stimulus has put money in our pockets. In the UK, savings rates have ballooned, growing from 6.8% in 2019 to 16.3% at the end of last year. It leads to the idea of spendthrift once

Sharp increase in government net borrowings

Source: IMF projections, as at April 21



the pandemic abates and life goes back to normal. We are human, after all, as Dr Christakis points out. During pandemics, "people become more abstentious, they save money, they get risk averse". But once behind us, these traits reverse. "A revenge spend", as Lowcock puts it, as we shake off the gloom of the crisis, and "go out to pubs, to restaurants and live life a little bit more".

Thirdly, and most importantly to the potential for roaring growth, big

government spending should power economies going forward. In contrast to austerity of the past decade, governments seem much more willing to borrow and have done so (see chart).

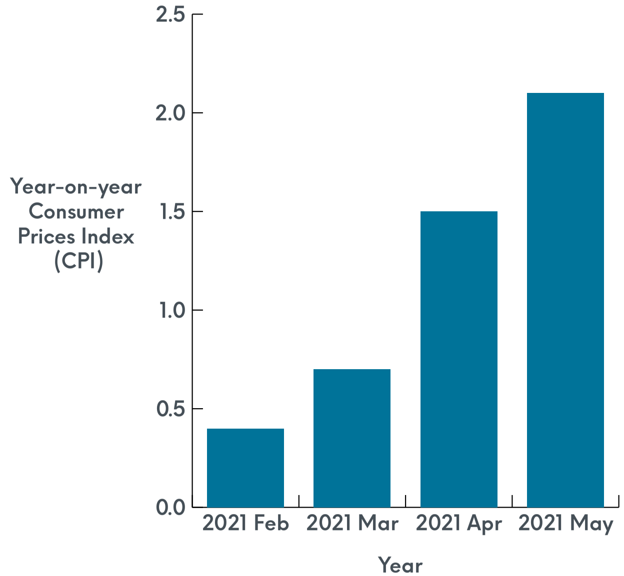
If Biden gets all of his proposed policies through, US government spending could total $6trn in an economy worth around $21trn. Adrian agrees it's significant: "Whatever the numbers, Biden's stimulus packages will be in the trillions. It is huge. That stimulus could power economic growth at levels we haven't seen for many years."

High inflation could be a risk

There's been much ado about the spectre of inflation, the potential crimp in the plan. The right amount keeps the economy ticking over, but too much and it starts to seriously erode wealth and confidence. Recent monthly year-

Year-on-year Consumer Prices Index (CPI) steadily rising

Source: Office of National Statistics, as of June 21



on-year inflation data has been steadily rising and leading some investors to worry if rises are transitory or a sign of higher inflation that's more permanent.

Adrian reckons you need to assess inflation from two perspectives: "You do need to look at it on a 12-month basis and look at what's dropping out of the inflationary figures and what's coming in. At the moment this is very low oil prices. As they come out, you get a little spike in inflation."

"Then, you need to look beyond that, and ask what will happen with inflation going into 2022 and 2023. That becomes a lot less clear. Supply chains have been hugely disrupted [by Covid]. Companies have missed seasons. They may have to change their margins and pass on some of that pain to the consumer. I personally think inflation is a risk longer term." That said, Adrian also thinks that "technology could help bring costs down, so I don't think it's all inflationary."

There could be money to be made in the UK, value, and smaller companies

Adrian has some investment ideas for the high growth, higher inflation environment we potentially face. "Higher inflation is generally not great for bond funds and bond assets. For equities (company shares) 4 – 6% is generally seen as an area they can tolerate and accept and do OK in."

As such, within shares, he reckons there's three good places to go rooting around in, based around the idea of economic sensitivity – known as cyclicality – and share price recovery as the pandemic fades. "The UK is well positioned for a recovery in economic activity. It is a more cyclical market than the US, for example, which means it can benefit from global economic recovery and a domestic rebound. The record stimulus being considered and announced by central banks should also support cyclical

Adrian's top picks

UK

Franklin UK Mid Cap Fund – run by Richard Bullas, Mark Hall & Paul Spencer. They have a social and economic overlay and then drill down into the market with a deep analysis of individual companies. Their exposure is very much mid-sized firms, with recovery and growth potential.

Lindsell Train UK Equity – Manager Nick Train has a long-term growth style, looking for businesses able to compound their profits year-in, year-out. The fund is very concentrated with around 30 stocks, and tilts towards consumer discretionary stocks and strong brands such as Unilever and drinks giant Diageo.

Value

Man GLG Undervalued Assets Fund – run by Henry Dixon and Jack Barrett. They aim for long term capital growth, and are looking at the assets of the business to try to understand what their value is in relation to its liabilities on the balance sheet.

Schroder Global Recovery – The Schroders value team have a disciplined and thorough process of identifying companies which they believe trade at a significant discount to their market value.

Smaller Companies

Jupiter UK Smaller Companies – Managed by the experienced Dan Nickols, this fund takes a flexible approach to investing in smaller companies and will include growth, value and recovery stocks, although it has a tilt towards growth stocks. The team have a deep knowledge of the companies they invest in and conduct detailed research before investing.

ASI Global Smaller Companies – run by Harry Nimmo. His philosophy is to focus on change, seeking out companies with strong profits growth, prices that look attractive, and high-quality management.

	What it's trying to do	Sector	Size	Manager(s)	Number Holdings	Risk & Reward (1-7)	Type
Franklin UK Mid Cap Fund	Capital Growth	IA UK All Companies	£1,140m	Paul Spencer; Mark Hall; Richard Bullas	39	6	Fund
Lindsell Train UK Equity	Capital Growth	IA UK All Companies	£6,447m	Nick Train	27	5	Fund
Man GLG Undervalued Assets Fund	Capital Growth	IA UK All Companies	£1,484m	Henry Dixon; Jack Barrett	69	6	Fund
Schroder Global Recovery	Capital Growth	IA Global	£754m	Nick Kirrage; Andrew Lyddon	56	6	Fund
Jupiter UK Smaller Companies	Capital Growth	IA UK Smaller Companies	£1,327m	Dan Nickols	83	6	Fund
ASI Global Smaller Companies	Capital Growth	IA Global	£1,489m	Harry Nimmo; Kirsty Desson	48	6	Fund

stocks, for in the mining and industrials sectors, as that money is put to work."

Next up is value investing – finding shares an investor thinks look cheap relative to their assets. This approach requires skill – as it involves going against market sentiment, which in the long-run if no one ends-up agreeing with you, the share price will go nowhere and you'll end-up stuck in a 'value trap'.

"The value element, which the UK also has a bias towards, should benefit both from the economic recovery, as many value sectors were hit hardest during the peak of the pandemic and are reliant on reopening markets, as well as recovery in [investor] sentiment."

Finally, smaller companies, which encompasses small and mid-sized firms. "As with value stocks, smaller companies sold off in the heat of the crisis and while there has been some recovery, the asset class has largely lagged the global mega-sized firms that have been the focus during the pandemic. Smaller companies are likely to benefit from renewed economic growth, disruption caused by the pandemic, as well as the stimulus which can benefit smaller companies disproportionately, as well as a willingness from investors to accept more risk as confidence returns."

Investments: using ETFs as a cheaper way to invest for income?

By Edward Bowsher, Financial journalist

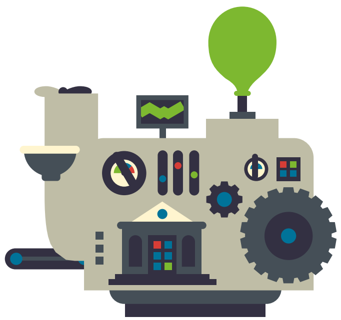
Income investing is an appealing investment strategy for many people and there are plenty of income funds out there to choose from. Many of them have decent track records too.

But there is a problem. If you're investing primarily for income, high annual charges can seem punitive. If a fund's yield is, say, 4%, you might baulk at paying a 0.8% annual fee.

That's where income ETFs come in. They offer a cheaper way of investing in income stocks.

So how do they work? Well, they're similar to the best-known ETFs that track flagship stock market indices such as the FTSE 100. But instead of buying all the stocks in the FTSE 100, a UK income ETF invests in the best dividend-payers in the London market. This is done by creating a set of rules for picking income stocks, and then all the stocks that comply with those rules go into a particular income index. An income ETF then tracks that index.

Let's look at an example: the iShares UK Dividend ETF. This is a UK Income ETF and it tracks an index called the FTSE UK Dividend+ Index. This index comprises the 50 best dividend payers in the FTSE 350 index. The index is rebalanced every six months, and stocks are added or removed based on their yield over the last year and their forecast yield for the year to come. Different ETFs follow different indices, but the basic concept is the same.



stepstoinvesting.com

Pros and cons of the passive income approach

The biggest plus point for Income ETFs is that they are relatively cheap. The iShares UK Dividend ETF has an annual charge of 0.4% while some rival income ETFs have lower charges at around 0.3%. That compares favourably with many conventional income funds where charges can be 0.8% or higher.

There's also no risk of a fund manager making dumb decisions. The best example here is the disgraced fund manager, Neil Woodford. His biggest fund was the Woodford Equity Income Fund, and given its name, you'd imagine it only invested in dividend-paying stocks. But that wasn't what happened; Woodford started investing some of the fund in ultra-risky unlisted stocks. This is known as 'style drift' and it won't happen with an ETF.
In fairness, most income fund managers do stick with income stocks but there's still a fair chance they'll pick the wrong stocks and the fund's performance will be disappointing. The

Video: What are passive funds?

rules-based approach of income ETFs should be more predictable.

What's more, income ETFs pay decent dividends. The iShares UK Dividend fund currently has a yield just below 4% and it was higher before Covid hit company pay-outs.

On the downside, income ETFs tend to be more expensive than the ETFs which track a broad index like the Footsie. Some of these broader ETFs have annual charges below 0.1%. It's also worth noting that there's plenty of history supporting an investment in broad markets. History shows that a long-term investment in a market like the FTSE 100 tends to do well. These flagship indices have been around a long time and although there are no guarantees for the future, the historical case is strong.

With income ETFs, the indices are often very new and they may have been designed to look good retrospectively.

There's also a risk that an income ETF may become over-invested in one or two sectors. This happened in the run-up to the financial crisis when the iShares UK Dividend ETF (under a different name) became over-exposed to banks and then suffered as bank share prices collapsed.

Where to invest for passive income

Let's now take a look at a few of the leading income ETFs:

1 iShares UK Dividend ETF (IUKD)

We've already seen that this ETF tracks the 50 best dividend payers in the FTSE 350. Its top holdings include Imperial Brands, GlaxoSmithKline and British American Tobacco. It's heavily exposed to two sectors – 22% of the fund is invested in financial services and 19% in Consumer Defensives. In its favour the ETF is relatively simple and has been around since 2005. That means there's very little danger of it being wound up.

2 L&G Quality Equity Dividends ESG Exclusions UK ETF (LDUK)

This is a much newer ETF – it was launched in April 2021. It's also pretty cheap with an annual charge of just 0.25%. It comprises some of the best dividend payers in the FTSE All-Share index which means the fund may contain some stocks that are too small for the iShares UK Dividend ETF. The underlying index comprises companies with a long track record of consistent and rising dividends and which have the potential to sustain those increases. There's also a filter to exclude companies that have low ESG ratings. That explains why the top ten holdings don't include any tobacco stocks. The largest holding is BT and there's a strong tilt towards financial stocks – 28% of the ETF is invested in that sector.

3 Vanguard FTSE All-World High Dividend Yield ETF (VHYD)

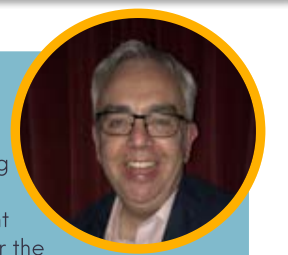
At 0.29% the charge is attractive, and this ETF gives you exposure to income stocks around the world. Many global funds are heavily exposed to the US but that's not the case here. Only 40% of the ETF is invested in US stocks. Two of the largest holdings are emerging market growth stocks – Taiwan Semiconductor and Samsung – but there are plenty of less surprising names elsewhere in the top ten. These include JPMorgan Chase and Procter & Gamble. As with the UK ETFs, this fund is also heavily exposed to financial stocks – they comprise 25% of the fund.

4 iShares MSCI Europe Quality Dividend ETF (EQDV)

This ETF gives you exposure to 54 European income stocks, including some in the UK. The largest stocks include consumer stocks such as Danone and Unilever, along with pharma stocks like Sanofi and Novartis. Once again, exposure to financial stocks is quite heavy at 23%. The annual charge is just 0.28%.

	What it's trying to do	Sector	Size	Manager(s)	Number Holdings	Risk & Reward (1-7)	Type
iShares UK Dividend ETF (IUKD)	Track top 50 dividend paying companies from FTSE-350	IA UK Equity Income	£786m	No manager	51	6	ETF
L&G Quality Equity Dividends ESG Exclusions UK ETF (LDUK)	Track high quality dividend paying companies from FTSE-ALL Share with favourable ESG characteristics	Morningstar Europe ex-UK equity	£26.1m	No manager	41	5	ETF
Vanguard FTSE All-World High Dividend Yield ETF (VHYD)	Track high dividend paying large and medium sized companies from around the world	IA Global	$1,853m	No manager	1,574	6	ETF
iShares MSCI Europe Quality Dividend ETF (EQDV)	Track higher-than-average dividend paying large and medium sized companies from Europe	Europe ex UK	€75m	No manager	55	6	ETF

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.

Investments: inflation-beating income strategies for your portfolio

By **Cherry Reynard**
Financial journalist

Why your income portfolio needs to change

The world is full of risky combinations: small children and scissors, alcohol and mobile phones, but for your financial portfolio one of the most toxic combinations is low interest rates and high inflation. Investors face the unwelcome prospect of low returns and dwindling purchasing power for their savings. This is the situation that may be looming for investors today.

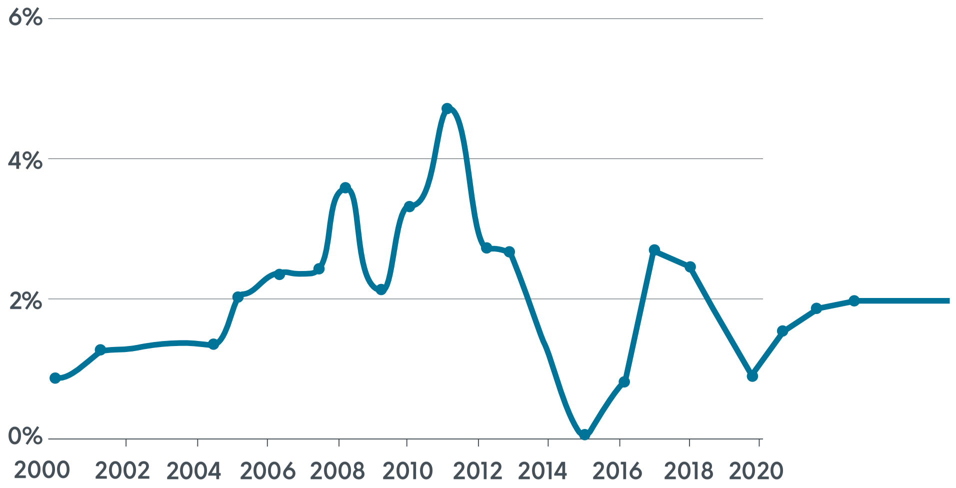
Interest rates dropped in response to the financial crisis and haven't risen meaningfully since. What was once designed as a temporary fix to encourage people to borrow and invest has now become embedded. Today, interest rates sit at 0.1% and there is little expectation that they will rise any time soon.

These low rates were already creating problems for income investors, who could no longer rely on a savings account or a portfolio of lower risk bonds to deliver a reasonable income. Savings accounts pay nothing or nearly nothing, while a 10-year UK government bond pays just 0.8%.

This is tough enough at a time when inflation has been generally low. In recent years, UK inflation has hovered

Inflation has been low for some years

Source: **macrotrends.net**; as of June 2021



around the Bank of England's target rate of 2%. It averaged 2.68% in 2017, 2.48% in 2018 and 1.79% in 2019. Investors in a zero-interest savings account were losing around 2% of the purchasing power of their savings each year. Uncomfortable, certainly, but not a disaster.

The inflation bogeyman

However, there are signs that inflation is moving higher. Governments across the world have spent freely in an attempt to stave off economic disaster during the pandemic. That money is still circulating even though we now appear to be experiencing a strong economic recovery. The OECD forecasts that the UK economy will grow 7.2% in 2021, its fastest rate since 1941. It is a similar picture in the US (6.9%), the Euro area (4.3%) and China (8.5%).

This could mean too much money chasing too few goods. Here too, the pandemic has created difficulties. It has created supply problems in areas such as commodities and semiconductors, as production plants have been forced to shut. Too little supply and too much demand pushes prices higher.

Against this backdrop, inflation measures are rising across the world. The US recorded a 4.2% jump in consumer price inflation in April, its highest since 2008. The UK inflation rate doubled from March to April – 0.7% to 1.5% - and is expected to continue to rise as lockdown eases.

In normal circumstances, central banks would step in and raise interest rates. This would calm the economy and should push inflation lower. However, they have made it clear that they are unlikely to do that. The Federal Reserve has said that it will wait until recovery is clearly established before raising rates, even if that means tolerating higher inflation. Where it leads, other major central banks are likely to follow.

The investment bit

This is a precarious situation for investors, particularly for those that have relied on

fixed income for a portion of their income. The gap between the income they are receiving and inflation will widen and destroy the purchasing power of their savings more quickly. If a £10,000 savings pot loses 3% of its purchasing power each year through inflation, after 10 years, it will be worth just £7,374 in real terms.

If fixed income investments are likely to struggle, stock market investments are generally a better idea. In an inflationary environment, companies may be able to put up their prices in line with inflation and, as such, they can keep growing their dividend payouts. Stock market dividends have a solid history of outpacing inflation. Investors are more likely to see their savings keep pace with real time prices.

However, dividend paying companies are not a panacea. Not all companies are able to put up their prices and not all companies are in a position to grow their dividends over time. Also, counter-intuitively , many higher growth companies will also perform poorly during periods of inflation as their long-term cash flows become less valuable. Investors


Laith Khalaf

What is value investing?

A 'value' investor aims to buy shares that are trading at a significant discount to their real value. This may be because the shares are in a boring utility company when investors love technology, or because the company has had a specific problem that has turned investors off. The biggest challenge as a value investor is making sure that a company is unfashionable – where the share price can revive - rather than just a bad company – where it could continue to fall. It requires investors to be contrarian in their thinking, going against the market consensus and also needs a long-term approach. It has a lengthy pedigree as an investment style.

should also be looking for companies with 'pricing power' – i.e. that can pass inflation onto their customers. This may be because they have a strong brand, or because their industry has high barriers to entry.

Laith Khalaf, financial analyst at AJ Bell, suggests funds with more of a 'value' tilt such as Jupiter UK Special Situations. He says commodities producers can also offer sanctuary in an inflationary environment. Investors could try a managed portfolio of mining companies such as BlackRock World Mining investment trust. Gold has also been a strong hedge against inflation historically – Gold ETFs are a potential option or an active fund such as NinetyOne Global Gold.

It may also be worth considering one of the 'Dividend hero' investment trusts. The Association of Investment Companies recently showed that among the 18 dividend heroes it has identified, 17 of have delivered compound annual dividend growth ahead of the UK Consumer Prices Index (CPI) over five years.

This select group of trusts is listed here

For fixed income holdings, it may be worth considering alternatives where the income is reliable, but adjusts with inflation. This might include some (but not all) infrastructure or property investments – M&G Global Listed Infrastructure, for example, or Tritax Big Box Reit, which specialises in distribution centres for ecommerce. If you are wedded to a fixed income investment, it may be worth trying a strategic bond fund, such as those from Fidelity or Schroders.

It is clear for investors that they cannot rely on the solutions that have served them well in the past; inflation changes the game. It is important to ensure your portfolio keeps pace with rising prices over the long term.

Two of my favourite Dividend Heroes

City of London investment trust

The City of London investment trust can boast not only the longest-running dividend track records, but also one of the longest serving managers. Job Curtis has run the trust since 1991, a tribute to his skill and consistency. The trust invests in the bluest of blue-chip UK shares: its top 10 holdings include Diageo, Rio Tinto, Unilever and BAE Systems. Its dividend yield is currently 4.8%, well ahead of inflation, and with an ongoing charge of just 0.36%, it costs little more than a tracker. The trust also has chunky reserves, ready to support the dividend payout should it be necessary.

Aberdeen Standard Equity Income trust

The Aberdeen Standard Equity Income trust has a strong long-term track record under the capable stewardship of Thomas Moore. However, its 'value' style has meant a tough few years as markets have focused on technology. Performance has powered ahead over the past six months and it could be a good turnaround story for investors. The trust has an impressive dividend yield of 5.7% and Moore believes this is secure. It also remains on a discount to net asset value of around 5%.

	What it's trying to do	Sector	Size	Manager(s)	Number Holdings	Risk & Reward (1-7)	Type
Jupiter UK Special Situations	Capital Growth	IA UK All Companies	£2,130m	Ben Whitmore	41	6	Fund
BlackRock World Mining Investment Trust	Income and Growth	IA UK All Companies	£1,160m	Evi Hambro; Olivia Markham	41	5	Investment Trust
NinetyOne Global Gold	Capital Growth	IA Specialist	£280m	George Cheveley	40	7	Fund
City of London Investment Trust	Income and Growth	AIC UK Equity Income	£1,877m	Job Curtis	84	4	Investment Trust
Aberdeen Standard Equity Income Trust	Income and Growth	AIC UK Equity Income	£204m	Thomas Moore	50 -70	5	Investment Trust
M&G Global Listed Infrastructure	Income and Growth	Europe ex UK	£349m	Alex Araujo; John Weavers	55	6	Fund
Tritax Big Box Reit	Income and Growth	AIC Property - UK Logistics	£3,464m	Tritax Management	59	-	Real Estate Invstment Trust