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SO YOU'RE THINKING OF

INVESTING

8 Tips to help you dive in to a happier investment journey

An Introduction to Investing

We've written this guide as an introduction to investing. We want to show you that investing can be simple. It can be profitable. It doesn't have to be a win or bust story. And hopefully you will understand it. This guide will hopefully dispel a few myths, increase your knowledge and understanding, and help you to make positive choices about whether or not investing is for you.

Please remember, past performance is no guarantee of future returns. Everyone's situation is different. This should not be taken as individual advice. If you want to proceed any further, you should seek advice and speak to a qualified professional.

Entertainment vs Reality

The entertainment industry can portray investing as a very exciting prospect. The media can often make you think that is a terrifying activity to get involved in. The reality is, it's much more boring than that. Or at least, it should be.

Ignore the news and media. Whether it's the news always reporting about the negatives of it, or the many films and TV series based in investment companies, they are designed for entertainment. To sell papers and advertising. Bad news sells. You'd do well to find companies who will replicate the shenanigans of Stratton Oakmont in "The Wolf of Wall Street," or the skirting of the law which goes on at Axe Capital in the TV show Billions.

There are countless tv series and films which portray investing and all that goes with it, but this is fiction. They have an artistic licence and aim to be entertaining. The truth is, if they portrayed how most financial companies go about investing, it wouldn't be entertaining enough to get past the pilot episode.

What Actually Is Investing?

invest

verb [I or T]

UK /ɪnˈvest/ US /ɪnˈvest/

B2

to put money, effort, time, etc. into something to make a profit or get an advantage:

We would go one step further. It is putting money into something aiming to achieve a profit through at least two different means – capital and income.

For example, if you buy a property, you will hopefully earn an ongoing income, as well as a capital gain when you sell. Equally, with a share, you earn dividends for holding it, and hope to sell for more than you bought it. And so, it is this definition which begins to define investments. It rules out all assets which we buy and hold with the sole aim to sell for more.

This automatically excludes buying commodities such as gold or silver, or cryptocurrencies such as Bitcoin, Dogecoin, Ethereum or Ripple. We don't consider these as investments because the only time you can make money is by selling them. We would call this speculating or gambling.

What does this mean in practice?

Many are put off investing because they don't understand it. They don't get how it works. They don't get the terminology. But it doesn't have to be this way.

You will have heard of the FTSE 100 on the news along with a daily update on how it has performed. But what exactly is the FTSE 100? The FTSE 100 index is simply the term for describing the combined share price movements of the top 100 companies on the UK Stock Exchange, by market capitalisation. It is made up of mostly household names such as the JustEat, JD Sports, Tesco, BT, Vodafone, Next, and Coca Cola to name a few. By investing in shares, you are buying small parts of these companies. A fund is a way of buying shares in many different companies at once - like a group of shares.

Each country has its own index which is made up of the top companies on their Stock Exchange and the movements reflect the general overall movement in price of each company.

S&P 500

DAX 30

FTSE 100

NIKKEI 225

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* Dictionary Definition taken from the Oxford Dictionary

Tip 1 : Decide on your Goal (s)

As with anything, before you start you need to have a reason for doing it. Investing is no different. You might have a really specific goal like taking your family on a big holiday when you're 50, or something a little less specific, but no less important, like being able to retire early. It may just be that you want to see your money working harder than it can do in your bank.

In our experience if you can have something you are really passionate about, then you are more likely to focus on it. A good tip is to write your goals down, so that you will be held accountable to them. If you have clearly defined goals you are much more likely to stick to them, and therefore you can focus on the bigger picture and not just how your investments have performed day to day.

Don't check your investments every day. As exciting as it can be watching your investments grow every day for a week, it can be demoralising watching them fall for consecutive days.

Daniel Kahneman published research which gets brought up time and again about loss aversion. It proved that we react twice as much to a loss of money, than to a gain of the same amount.

"It is thought that the pain of losing is psychologically about twice as powerful as the pleasure of gaining."

Kahneman & Tversky, 1979

This is why you need to be really clear on your goals.
It needs to be something you feel strongly about and really believe in, so that on days when investments don't do so well, you can look at the bigger picture, and focus on those goals.

SMART Goals

S = Specific	Well Defined, clear and unambiguous intention
M = Measured	You must be able to know when your goal has been achieved
A = Agreed	Agreed with someone who will hold you accountable about it
R = Realistic	It should be achieveable for you
T = Timebound	Set a timescale to achieve it to focus your efforts

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Tip 2 : Cash v Investment

Before you start investing, you need to have an Emergency Fund. This should be cash in the bank which you can access quickly should you need it. Ideally this should be about 6 months' worth of expenditure. This gives you a buffer should you be unable to work, or if you needed money quickly or if something unforeseen happens.

"An emergency fund turns a crisis into an inconvenience"
- Dave Ramsey

Interest rates on money in the bank are very low. That's OK. The purpose of this money isn't to make more. It's to protect you should you need it. The key is to strike a balance between having enough cash, and not having too much. By having all of your life savings in cash, you will find that the biggest risk you face is inflation.

Inflation is the increase over time of the cost of daily living – things getting more expensive every year. Typically, long term inflation rates are between 2-3% per annum. For your money to keep track, you need to equal that rate of return. How many bank accounts currently pay that much interest?

You must strike a balance between cash savings and investments.

	Cash	Investment
Purpose	To provide a safety net	For long term growth
Timeframe	Short Term 0 - 5 years	Long Term 5 + years
Expected Return	0 - 1.5% per annum	3-7 % per annum*
Beat Inflation	No	Yes - it should

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*depending on risk and investment portfolio. Investments can go down as well as up and you may not get back what you originally invested

Tip 3 : Understand Risk

With money, there is always a risk. By not investing, there are still risks. If there was a way to make money with absolutely no risk, everyone would be doing it. It doesn't exist. There is a relationship between risk and return, with the more risk you take, the greater your POTENTIAL return could be. You need to understand the risks before investing.

Inflation Risk

The greatest risk your money faces is inflation. This is how much the cost of living grows each year. The UK government targets this to run between 2-3% each year. That means, for your money to be able to buy the same today in 5 years, it needs to have grown by about 3% each year. Beware, some prices grow by more than inflation.

My favourite example of this is the 500ml bottle of Coke. When I was at school, around about 2005, it cost 70p for a 500ml bottle of Coke. Nowadays, it costs around £1.40 for the small bottle (some brands don't even contain 500ml any more!). This has grown by more than inflation, but it is living proof that inflation does happen. Your money in the bank needs to grow by more than bank interest rates, if you simply want to stand still.

Investment Risk

Every type of investment has its own specific risk. If you buy shares, the company could go through hard times, or it could fail and shut completely. If you buy property, the value of property might go down, you might lose a tenant and have no income to cover the ongoing costs. Or it could burn down and you are left with the proceeds of your insurance policy, but nothing else.

Risk Tolerance: How do you feel about risk? If your investments drop, would you panic? Or would you accept it as part of the process and remain invested?

Risk Capacity: Can you afford to take risk? If your investments fell, would it have any impact on your quality of life? If it does, you shouldn't do it.

Return Requirement: Do you actually need to take any risk to meet your goals?

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Tip 4 : Diversification and Asset Allocation

"Don't put all your eggs in one basket" sums this up perfectly.

Diversification simply means owning lots of different things. Spread your eggs into as many different baskets as you can. If you are one of our clients, any standard portfolio we recommend will own thousands of different companies around the world.

If you have all your money in the shares of one particular business, you accept a lot of risk. If that company fails, you could lose everything. Never put yourself in the position where you could lose everything.

If you want to invest in one particular stock, or one asset, or one cryptocurrency, do it separately. Make sure it is money you can afford to lose – we call this your "fun money". We believe your life savings and investments should be kept separate, invested in a portfolio of assets spread across many different countries and companies.

We have all heard the stories of how much you would have made if you invested everything into Apple or Tesla 10 year's ago, but your chances of picking the right one is very slim. For every company which does well, there are countless losers. So if you want to take a punt, only do it with money you can afford to lose.

What is Asset Allocation

An asset is an object, a resource or a thing which has value. For example, cash is an asset in the same way as a bottle of wine is an asset. The four main assets classes most portfolios are made up of are Cash, Bonds (or fixed income), Property and Shares.

Each asset has different characteristics and they all behave differently. Cash and Bonds are designed to protect your assets when times aren't as good, so we call these your defensive assets. Property and Shares are the drivers behind your return, and therefore we call these your growth assets. Many investors decide to remove property from their portfolio due to the fact the biggest investment most of us make is in purchasing our own house, and so we are already heavily reliant on property.

When you invest, be mindful of adding in some defensive assets. The amount of clients we meet who have been doing it themselves and don't realise they are almost entirely invested in shares in one specific country or industry sector, is staggering. And they don't even realise the risk they have taken. Just because they didn't notice it before, doesn't mean they won't notice it in the future when they need the money.

Investment Styles

You may want to have a particular style of investing. You might only want to invest in technology companies, or biotech firms, or ethical investments. If you can't do this while creating a fully diversified portfolio, then please do this separately from your main life savings.

Remember a fund is a way of buying a group of shares. Nowadays, there are such a wide range of fund choices out there, that if you have the time and inclination to manage your own money, you could focus on a very specific investment style.

We focus on evidence-based research to decide how we will invest. This means we may have specific funds in a portfolio which each focus on one particular style of investment, such as a Small Companies fund.

Active vs Passive Investing

If you have started your own research, you may have found active and passive investment approaches.

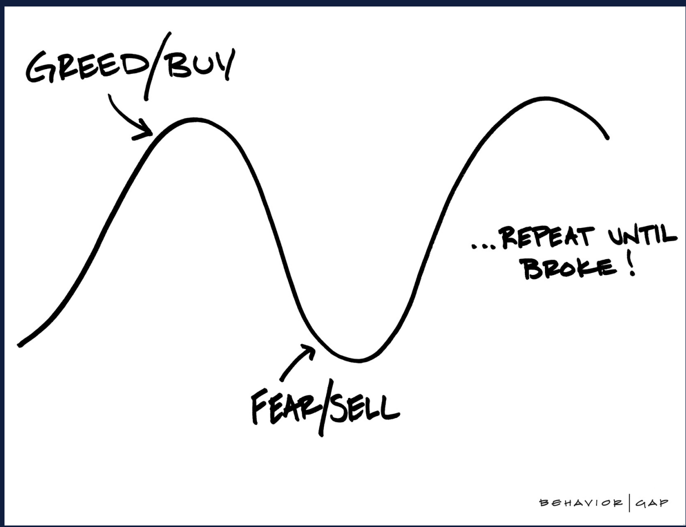
An active investment approach focuses on choosing a more concentrated number of investments, making decisions on buying and selling, with the aim of trying to outperform the market. There are many more transactions which increases cost, and more research and management which further increases costs. By concentrating on less investments, it also reduces diversification.

A passive investment approach tracks an index (Like the FTSE 100 or S&P 500) much more closely, not making decisions between specific companies. The idea is nobody knows more than the collective market, and therefore to consistently make returns, the better option is to own the whole market. There are often fewer transactions and requires less management, and so costs are usually considerably lower.

Tip 5 : Time in the Market beats Trying to Time the Market

We often get asked “Is now a good time to invest?” If anyone ever tells you anything other than “I don’t know” then you should be careful.

Trying to time when to get in and when to get out can be very difficult. Often you’ll miss the best days to be invested, and you might end up buying high, and selling low. If you continue to do this, you could end up losing a lot of money.



The easiest way to invest is to buy as early as you can, hold for as long as you can, and only sell when you need the money. You should only invest if you have a minimum of 5 years to allow this money to sit, but ideally the longer you leave it the better it is. The reason we say 5 years, is because it gives you time for the money to recover, should it go down in value.

Compound Interest

Another reason we say you should invest for a long time is because of something called Compound Interest. This is essentially when you earn interest on top of the interest you’ve made. Some people describe this as the investment snowball effect. In the beginning it doesn’t look like much. But consider the graph of £10k growing by 5% every year for 50 years.

”Compound Interest is the eight wonder of the world. He who understands it, earns it; he who doesn’t, pays it.”
- Albert Einstein

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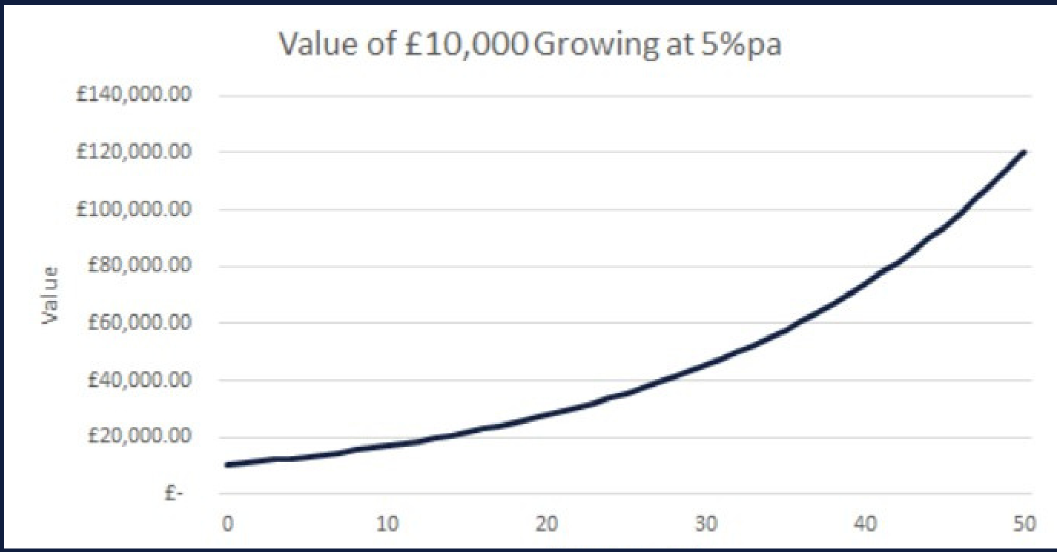

10 Years	£16,289
20 Years	£26,533
30 Years	£43,219
40 Years	£70,400
50 Years	£114,674

It’s only after 20 years plus that you start to see the real benefit of compound interest and the value of your money begins to increase much quicker. This is why we say you should start as early as you can, and leave it for as long as you can.

Lump Sum versus Monthly Investing

In an answer to trying to time the market, you might decide to invest your money monthly, rather than all at once. This way, some of your money will be invested each month and the market may be higher or lower than other investments you made. If markets are lower, you get more for your money.

This can be a good technique if you are unsure about investing, and you might decide to split a large sum into several instalments. If you can get into the habit of regularly saving from your income each month, you will reap the rewards of discipline and buying into a market as it goes up and down.

Top Tip: Pay Yourself First

If you are trying to save regularly, set up a regular payment out of your bank account into your savings for the day after you get paid.

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Tip 6 : Costs and Charges

No matter how you invest, there will be costs and charges to look out for. Whether you are buying individual stocks or funds, there may be initial and ongoing costs. These will often be expressed in percentage terms, and you must realise that these will come off your investment return.

Investment Charges you might incur:

- Custody charges - cost of holding your investment
- Transaction charges - cost of buying and selling investment funds
- Fund charges - cost of managing the investment fund

You will pay a higher charge for actively managed funds because they are trading multiple times per day, take up more research and management time and have more transactional charges. Passive management, which aims to trade less, or index funds which may track a market, will often be the cheapest funds.

Expect to pay more for funds investing with particular styles, such as if they aim to buy small companies only, investments in a certain sector, or in a particular geographic region such as an emerging markets fund.

Rule of Thumb:
Lower overall charges should equal a better investment

How much time do you want to spend with your investments? Remember the more you change it, and the more times you buy and sell, the more transaction costs you will incur. Be comfortable with your investment strategy because you shouldn't feel the need to monitor it all the time.

Funds have different share classes which in turn have different charges. By gaining access to share classes available only to advisers or institutions, you can decrease your fund charges.

Ultimately, however, charges will drag on your investment performance and so you want to minimise these as much as possible.

"Money is like soap, the more you handle it the less you will have"
- Eugene Fama

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Tip 7 : Consider The Tax Position

Once you have decided where you are going to invest, you should then decide how you will do it. There are various "products" or "tax wrappers" which you can use to hold your investments.

There are numerous options, all with their own specific purpose, advantages and disadvantages, but this guide won't go into the detail of it. The simplest explanation is that everything inside these wrappers have different rules and different tax treatments when compared to others.

ISA (Individual Savings Account)

An ISA will grow completely free of tax – there will not be any income tax and dividend tax on growth, and no capital gains tax when you sell. There will also be no tax when you take money out of an ISA.

Pension

A Pension earns tax relief on the way in. This means that for every £10 which is paid personally into a pension, it effectively costs you £8 if you are a basic rate tax payer, or £6 if you are a higher rate tax payer. It grows completely free of tax, but when you want to take money out, only 25% of it is tax free, and the remainder is charged at your own income tax rate.

GIA (General Investment Account)

A GIA has no specific tax advantages, and income and capital gains falls under your personal tax regime. It's for this reason, you should look to utilise other appropriate tax wrappers first.

Different Rules, Regulations and Tax Treatments

Some products have certain allowances and limits which restrict how much you can invest in each tax year, which is controlled by the Government at that time. Keeping on top of these changes can be a struggle in their own right.

By using the various allowances and wrappers available to you, you can make a huge difference to your investments over the long term. Sometimes, it is a simple change in the way you hold an investment which can make the difference.

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Tip 8 : Ignore the Noise

We all need to remember news outlets are a business. Their primary purpose is to make money and be profitable. And the way they make money is to get more viewers so they can sell advertising space, or make more sales of their end product. The best way to do this, is report on things which people will engage in.

The Daily Telegraph

Tuesday 10 March 2020
telegraph.co.uk/business

Business

Markets

FTSE 100

5965.77
-496.78 (-7.69pc)

Biggest riser
Polymetal Int
1305½p
-7½ (-0.58pc)

Biggest faller
BP
318¼p
-77.00 (-19.48pc)

Dow Jones

23851.02
-2013.76 (-7.79pc)

FTSE 250	17547.15	-1199.36 (-6.40pc)
FTSE All Share	3334.86	-266.09 (-7.39pc)
FTSE All Share Yield	5.22	-0.39
FTSE Eurotop 100	2530.85	-214.31 (-7.81pc)
Nikkei 225	19698.76	-1050.99 (-5.07pc)
EURO STOXX 50	2959.07	-273.00 (-8.45pc)
S&P 500	2746.56	-225.81 (-7.60pc)
Nasdaq	7950.68	-624.94 (-7.29pc)

Currencies

£$ Rate 1.3103 Change +0.70c

£€ Rate 1.1475 Change -0.49c

Commodities

Gold
$1680.30
(£1282)
-7.96 (-0.48pc)

Brent Crude
$34.36
(May)
-10.91 (-24.10pc)

Inside

Getting the message
Jack Dorsey to stay on at Twitter after activists secure share buyback

Not much takeaway
Tesco's Thai sale threatens to starve it of growth
Ben Marlow

Trillions of pounds wiped off global stock markets in new Black Monday

Worst FTSE 100 crash since the financial crisis as oil price plunges and coronavirus fears push bourses into bear market territory

By Louis Ashworth

STOCK markets crashed after the coronavirus outbreak shattered an oil alliance between Saudi Arabia and Russia, pushing crude to its worst one-day drop in 30 years in a new Black Monday.

Shares across Asia and Europe descended into bear market territory – down more than 20pc from recent highs – as a frenzied sell-off that started last month accelerated after Riyadh cut oil prices and announced plans to ramp up production.

More than £124bn was wiped off the FTSE 100 as it closed down 7.69pc, the biggest drop since 2008. The pan-European Stoxx 600 erased all its gains since the start of last year, amid the most brutal scenes on trading floors since the global financial crisis.

US stocks cratered, with the Dow Jones down as much as 2,000 points in early trading and the benchmark S&P falling more than 7pc. The chaos forced Wall Street trading to be temporarily suspended for the first time in 12 years, with rough calculations suggesting stocks worldwide lost well over $2 trillion (£1.5 trillion).

That sinking feeling
Stocks and oil dive again

-7.8%
The Dow Jones in New York lost over 2,000 points as bears tightened their grip on Wall St

-7.7%
In London more than £124bn was wiped off blue-chip stocks, the biggest one-day drop since 2008

-11.2%

Saudi Arabia's gamble may push crude below $20

By Andy Critchlow

Oil markets have been caught in the eye of a storm between the fears of coronavirus and bickering between Saudi Arabia and Russia. Some industry veterans now fret this high-stakes game of roulette could see the value of a barrel of the global economy's lifeblood tumble below $20. They may be right.

Brent crude suffered its biggest fall since the start of the Gulf war in 1991 in London trading. The benchmark – which helps set the price for almost $1.3 trillion of crude – has halved since the beginning of the year, with its value plummeting by 24pc yesterday to settle at $34.36 a barrel. But worse may be to come.

Abdullah bin Hamad al-Attiyah, Qatar's former oil minister and president of Opec, fears markets are entering into uncharted territory. "I saw the first shock and the first collapse and this is worse," he said. "My expectation is for oil to fall below $20 per barrel. We have seen it before."

The reasons for his concerns are twofold. Firstly, a three-year-old pact between Riyadh and the Kremlin to manage the price of oil has collapsed

How many times have you looked at your favourite business or financial news columns, and they talk about how markets are falling. "Billions wiped off the stock market today" is a particular favourite. Even just a 1% fall will mean this headline is factually correct. However, consider how many times you've seen or heard the opposite: "Billions wiped on to the stock market today." Almost never

It doesn't have the same sensationalist, attention grabbing feel to it. News outlets are all too aware of this, and so they often focus on the bad news before they report the good. Bad news sells.

Investment markets react to news all the time. The price is driven by people wanting to buy or sell. It's for this reason the markets are always moving. Emotions are a huge driver to this. For anyone to be successful when they invest, they need to have a plan and stick to it.

Investor behaviour is one of the key drivers to ensure a good investment experience. Don't be swayed by every bit of news. You should periodically review your position and your strategy, but don't make an emotional decision based on the latest bit of news. Your investments are for the rest of your life. You can't have a long term year investment plan based on the recent news.

"People make 30 year investment decisions based on the last 30 minutes of news"
- Nick Murray

If any of this sounds interesting or you feel you would benefit from a chat with us, please let us know. We would love to meet you for a cup of coffee and discuss this with you.

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hello@modulusfp.com

The information is targeted at retail clients

Nothing in this brochure should be taken as advice. Everyone's situation is different, so you should make sure to speak with a Financial Planner to discuss your own personal situation.

This is for general information only and does not constitute advice

Investments can go down as well as up, and you may not get back the full amount you put in.

The tax implications will be based on your individual circumstances, tax legislation and regulation which are subject to change in the future.