



A guide to investing

Investing can be an exciting and potentially rewarding endeavour, and it can also help to preserve the 'real' value of your money by preventing its purchasing power from being eroded by inflation over time. For those who have not invested before, or whose expertise lies in other fields, investing can be daunting. In this introduction to investing, we aim to break the subject down into its key components that investors may wish to consider:

1. **Objective**
2. **Risk**
3. **Time frame**
4. **Attitude to risk**

We will also look at pound cost averaging, a key feature of pension investment.

It is important to note that for investors using the My Future Life Strategy investment process, there is absolutely no requirement to have any previous investment knowledge or experience. The scheme has been designed to welcome pension savers of all ages and from all sectors.

1 Objective

The purpose of investing is to produce a return. That generally takes the form of a rise in value of the invested money, an income stream, or some combination of the two. For pension investors, there are generally two objectives at different stages.

Prior to retirement, in the accumulation phase, the goal is generally to grow the value of pension contributions to make them worth more when we come to drawdown on them in the future. This is usually achieved via a growth strategy.

Then, in the drawdown phase after retirement, the goal is to support regular withdrawals from the pension pot over time, usually via an income strategy or a strategy which offers a combination of growth and income.

2 Risk

Risk, in the context of investing, is the uncertainty associated with the return the investments will provide in the future. Investing inherently involves risk, however, investment risk is different from risk in areas like gambling, where big wins always involve high chances of loss. Risk in investing can be managed. Understanding investment risk or having a good adviser to help guide you is crucial to your long-term financial success. If you have the right investments for your situation and attitude to risk, then you are positioned to maximise your potential return while managing your risk of loss to a low level. The right investments for you are dependent on your objective, time frame and attitude to risk.

3 Time frame

While the value of investments does rise and fall over time, for a professionally managed and well-diversified investment portfolio, the chances of achieving a positive return increase with time. As such, for long-term investments, such as pension savings, while returns are not guaranteed the chances of losing money are low. Historical data is included below to illustrate this, showing over the last few decades the percentage of periods where investors owning a diverse portfolio of global companies made or lost money. What it illustrates is that over the short term the chances of loss are greater. The odds are, however, firmly stacked in your favour over longer periods such as 10 or 15 years.

Historic statistics for global equities

	1 Year	3 Years	5 Years	10 Years	15 Years	20 Years
Average Return	19%	51%	91%	230%	417%	756%
Odds of Loss	1 in 5	1 in 9	1 in 13	1 in 67	No historic examples of loss	
Average Loss	-11%	-18%	-14%	-5%		
Worst Loss	-32%	-44%	-26%	-9%		

Based on data for the MSCI World Index of global equities from Feb 1975 to Sep 2023

Over shorter periods more conservative strategies, with lower return and lower uncertainty of return, can then be used to generate returns within a suitable risk profile. To provide a comparison for the above, below is the equivalent data for a lower risk, balanced strategy, which consists of fixed income and global equities (stocks and shares). What this shows is that while returns are lower in a balanced strategy, you have a much lower chance of loss over intermediate periods, such as five years, and smaller worst cases over all periods. This is why lower risk strategies are generally considered to be better suited for investors with short investment periods or more aversion to risk.

Historic statistics for a typical balanced portfolio

	1 Year	3 Years	5 Years	10 Years	15 Years	20 Years
Average Return	10%	25%	36%	75%	123%	192%
Odds of Loss	1 in 5	1 in 9	1 in 86	No historic examples of loss		
Average Loss	-6%	-7%	-3%			
Worst Loss	-20%	-16%	-6%			

Based on data for Investment Association Mixed Investment 20-60% Shares Sector from Dec 1990 to Sep 2023

4 Attitude to risk

Once you know your investment objective and time frame, you can start to narrow down the type of investment approach that may be suitable for you. Growth-focused investors with a long-term time frame, say 10 years or more, could consider a global equity portfolio in order to try and maximise their potential returns. If, however, you are very uncomfortable seeing short-term falls in the value of your portfolio, then this may not be the best approach for you. While a growth-focused equity approach may offer the highest potential returns, it will also have the largest short-term falls along the way as events such as recessions inevitably occur. If such falls might cause you to want to sell your investments at a time when markets are depressed, this could cause you to incur a loss on your investments and undermine what otherwise might have been a good approach.

As such, for investors who are less familiar and/or uncomfortable with seeing investment values fall in the short term, it may be better to use a lower risk approach. While this may have a lower long-term return potential, it is better to have a lower risk approach that you are able to stick with than a higher risk approach that may force you out at the wrong time. For pension savers, it is important to bear in mind that the power of compounding means that being underinvested for a long period of time may lead to a significantly lower value in your pension scheme when you come to retire.

Pound cost averaging & compound growth

There are two magic tricks in the world of investment and the good news is that pension savers are well-positioned to benefit from both. These quirks of markets and maths help reduce risk and enable small gains to compound over time into bigger returns. These tricks are pound cost averaging and compound growth.

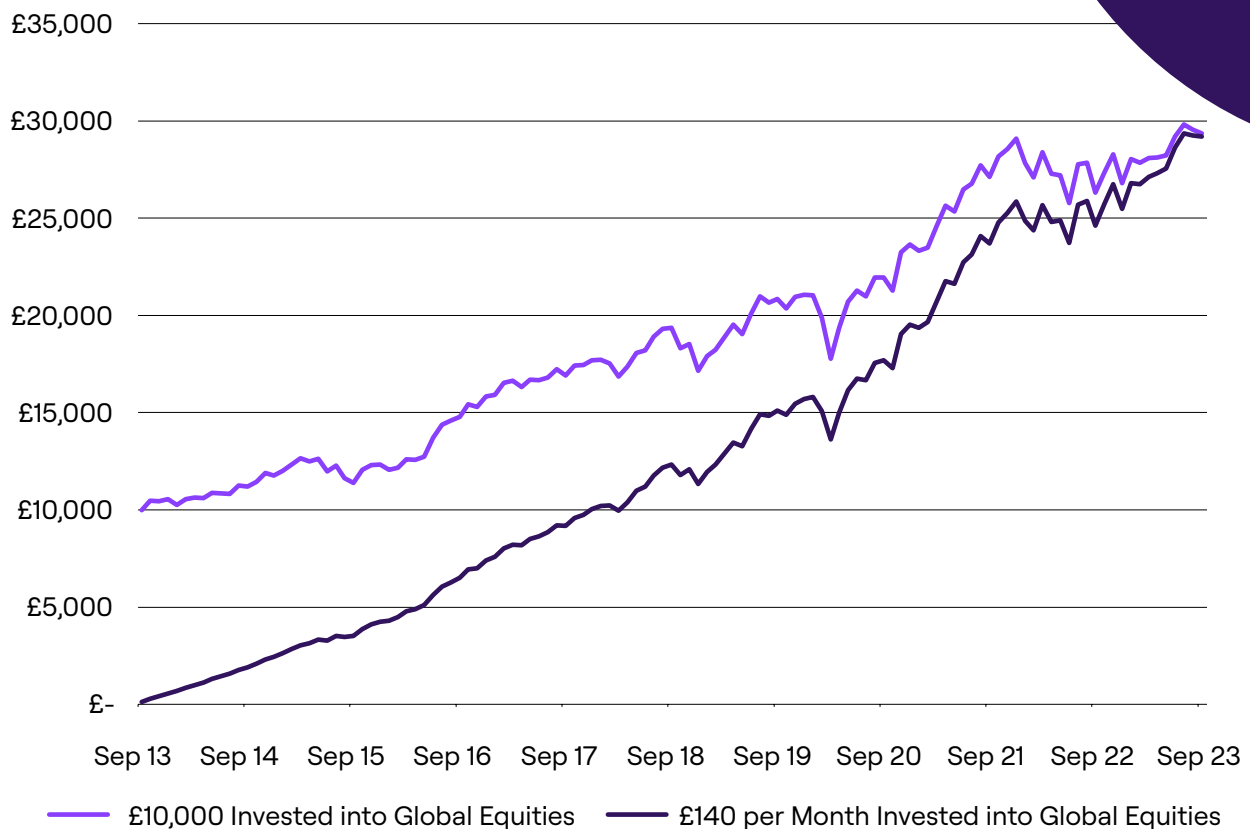
Pound cost averaging

Pound cost averaging refers to the process of making regular contributions to an investment portfolio and can help to reduce the risk of investing. In a pension, for example, this might be someone investing, say, £100 from their salary into their pension each month.

The idea behind pound cost averaging is that the regular payments help smooth out the ups and downs of the market, which is often referred to as “volatility”. It can also be less daunting emotionally to commit smaller amounts of money to your investments rather than a larger lump sum, particularly in periods of heightened market volatility.

By regularly adding to a portfolio, you average out the highs and lows of markets and can benefit from adding during periods of market stress when prices are low, when you may otherwise not have felt inclined to invest. The effect can be dramatic. Below is a chart that shows the value of two theoretical portfolios invested in the same selection of global company shares. While both savers end up with just under £30,000 at the end of the 10 year period, you can see that the journey for the regular saver (i.e. pension saver) is a much gentler one than for the lump sum investor, especially in the early years.

Lump Sum Investment vs Regular Saver



Compound growth

The second magic trick of investment is the power of compound growth. Albert Einstein is alleged to have made the below comment about the power of compounding:

**“Compound interest is the eighth wonder of the world.
He who understands it, earns it ... he who doesn't ... pays it.”**

Compound growth is the secret weapon of pension savers. It allows those who begin early to make small contributions today that will then grow into larger sums in the future. To give an example of its power, imagine a 35-year-old who is starting to save towards retirement in 32 years' time. If they put £100 into their pension and can achieve a growth rate of 6% above inflation, what will it be worth when they come to retire?

$$\mathbf{£100 \times (1.06)^{32} = £645.34}$$

So for every £100 they put in, they can withdraw around £640, even after you account for prices rising over time. That is a huge help for pension savers, who would in this example, see a 6x return on their initial investment.

Investment Options

Investing your money within a pension pot is a necessary step towards building your future wealth and is how the vast majority of pension money is managed. As we have noted earlier in this guide, there is absolutely no requirement to have any investment knowledge or experience.

For investors looking for financial advice, we recommend speaking to a qualified and regulated financial adviser.

Starting a pension is an exciting and positive step towards securing your financial future and remember, nobody needs to be an expert to get started.

Data Note

Global equity data is based on the MSCI World Index, before fees, for global equities and runs from 31st Jan 1975 to 30th Dec 2023 unless otherwise shown. Balanced portfolio data is based on the Investment Association Mixed Investment 20-60% Shares sector average, after fees, as compiled by FE Fundinfo from 28th Feb 1990. All data was collated on 27th October 2023. All data is monthly data in Sterling total return terms, which combines capital and income returns. Average Return is the average of all periods that experienced a positive return. Average Loss is the average of all periods that experienced a negative return. All periods run from and to calendar month ends.

The value of investments can fall as well as rise. Investors may get back less than invested. Past performance is not a guide to future performance and may not be repeated.

This document has been prepared by Titan Wealth, as the investment manager of the My Future Life Strategy.

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