

SHE WORKS
HARD FOR
THE MONEY


MONEY SHE
smart women invest





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control and plan

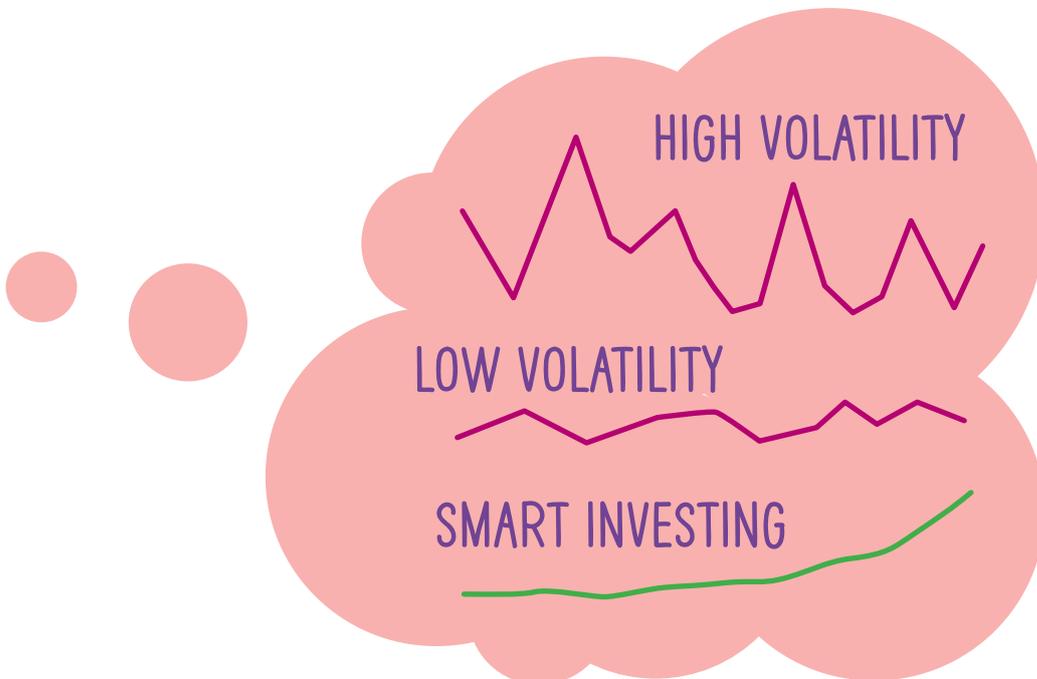
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Introduction

If only we had a crystal ball and could see into the future and be able to find out exactly what will happen to our investments. But the reality is no-one can predict or control the future, no matter what supposed experts tell you. So, the most common-sense, practical thing to do is to concentrate on the things you can control and plan.

Volatility and Investing

Put simply, volatility is one of the ways we calculate the risk of a particular investment, over a set period / timeframe. A highly volatile investment is more likely to experience more frequent, and possibly large, up and down movements in price than an investment with low volatility. Smart investors look for ways to smooth out these ups and downs and get more consistent returns.



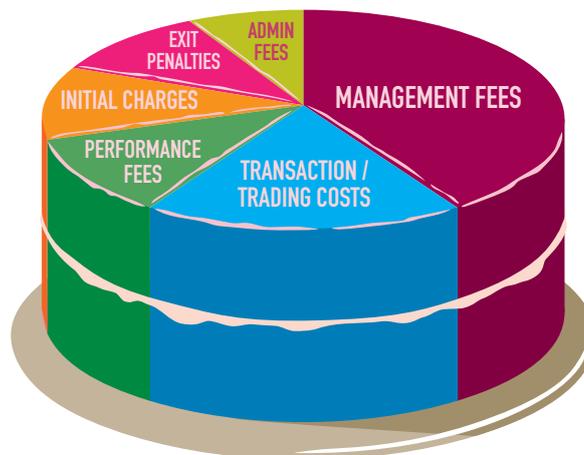
Balancing Act - Cost, Risk and Returns

COST

If you choose to have your money looked after by a professional fund manager, adviser or wealth manager, it's only natural that they will charge a percentage fee to manage your money.

BUT BEWARE - not all costs and fees are transparent!

There are several layers of costs associated with investing (on top of manager's fees) and you need to make sure you know **ALL** fees at **ALL** levels before you invest as that money will come out of your returns. Those naughty money men often try to hide some of the costs so you need to be persistent in asking what the **TOTAL** Cost of Investing really is – after all it is your money!



How does the Total Cost of Investing add up?

The Total Cost of Investing is an overall percentage (%) cut from the return your money earns. These costs are payable even if you don't make a return on your original investment, which means you can get back less than you originally invested.

Good news! Costs are one thing you can control by shopping around.

The average total fees when investing with traditional wealth managers and adviser firms appears to be c. 2.21% per annum. But when you add the average hidden

transaction costs of c. 0.5% per annum, the average true Total Cost of Investing is c. 2.71% per annum. Whereas, for a typical low-cost manager, the average Total Cost of Investing can be around c. 0.93% per annum.

Due to the magic/ mathematics force of compounding, what appears to be a small 1.78% per annum difference can have a dramatic negative impact on your investments over the medium to long-term.

Low cost Manager	High Cost Manager
£18,930 profit	£8,623 profit
£100,000 invested for 5 years	£100,000 invested for 5 years
Fee 0.91%	Fee 2.71%
Estimated cost £5,660	Estimated cost £15,995



Beware of Hidden Costs!

Not all fund managers display 100% of their fees in a transparent, easy to understand manner, making it difficult to compare and make sure you are getting good value for money and balancing your costs.

Scenario

If Julie invested two **£100,000** pots over 5 years with two different companies — Company A (a low-cost manager) charging 0.93% per annum and Company B (a high-cost manager) charging 2.71% per annum.

They each get a pot to manage and both investments grow at 4.5% p.a. before costs.

After costs are deducted from each pot over the course of 5 years:

- Company A has a return of **£18,451** bringing the total to **£118,451**
- Company B has a return of **£8,623** bringing the total to **£108,623**

What Fees and Charges Would You Be Paying?

To control costs, you first need to know what they are. Let's take a closer look at what the layers of costs and fees are made up of:

- **Fund/Portfolio Manager Fees**

These charges can appear under three names - Annual Management Charge (AMC), Total Expense Ratio (TER) or On-going Charges Figure (OCF).

But there are subtle differences:

- **The AMC** - standard, annual, static cost to running the fund ONLY.

Beware! This figure does not cover the additional costs associated with managing the fund/portfolio.

- **The TER and OCF** - are very similar as both include the AMC + additional, on-going, variable costs.

The only difference is that the TER does not cover any performance fees or one-off charges.

So the OCF is the most accurate measure of what you are actually paying a fund/portfolio manager.

- **Trading Costs**

These are in addition, and variable costs associated with buying and selling assets within the fund. Trading Costs include any stockbroker commission and stamp duty.

Trading Costs very much depends on a fund/ portfolio strategy. For example, funds that trade a lot will have higher costs compared funds that have a buy and hold approach or only change their asset allocation twice or once a year.

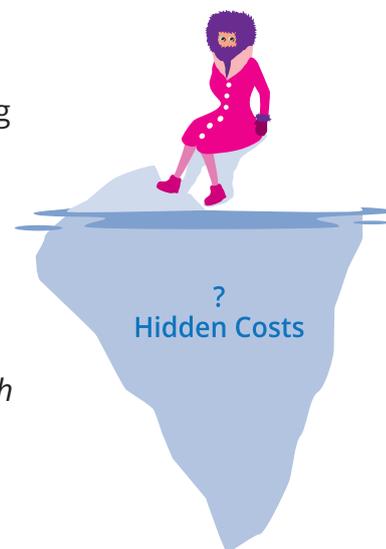
The hope of more active funds is that the extra returns made from making successful asset allocation changes will result in higher performance that outweigh the additional trading costs.

Remember - A good fund/portfolio manager is always aiming to balance costs and returns, as well as the risk appetite of clients.

- **Initial Charge and/or Exit Charge**

Some funds/portfolios charge entry (initial) and/or exit charges.

Most companies no longer have these charges, however some do and it can have a sizable impact on your investment pot. Look at their 'Key Information Document' (KID) to find out.



- **Dealing/Administration Charges**

Sometimes these charges are included within the Annual Management Charge (AMC), and sometimes they will be quoted separately as either a percentage or fixed fee per transaction.

These charges can apply to a range of administration tasks such as trading, ISA subscriptions, ad-hoc valuations, tax information, dividend collection and cash transfers.

If a provider only quotes a single Annual Management Charge figure, it's very much worth asking what are the underlying/ separate fees and charges that make up that one number, and if there will be other charges applied once you're invested.

- **Stamp Duty/Stamp Duty Reserve Tax (SDRT)**

Stamp Duty/Stamp Duty Reserve Tax (SDRT) is payable on the purchase of UK direct equities/shares only at a rate of 0.5%. In real terms, this means if a portfolio has £500,000 worth of direct equities there is a charge of £2,500 on the initial purchase.

However, it is important to not just consider this charge at the outset as it will be applicable whenever equities are purchased. A fund/portfolio manager will make numerous changes to the underlying holdings throughout the lifetime of an investment and each purchase may qualify for Stamp Duty/Stamp Duty Reserve Tax (SDRT).

Note: Stamp Duty/Stamp Duty Reserve Tax (SDRT) is NOT charged on the purchase of gilts, unit trusts or OEICS.

- **Platform Charges**

An On-going Platform Charge is applied when a fund/portfolio manager uses a platform to host your account and give them access to a host of tools to execute their investment strategy.

Platform charges can be a fixed fee or percentage based, sometimes reducing dependent on the value of a client's investment.

- **Adviser Charges**

An Independent Financial Adviser (IFA) will have their own charges that will need to be added onto your investment related charges.

Initial Charge – some IFAs charge an Initial Charge to cover the initial risk and suitability assessment along with the administration involved in setting up a new investment/client account and will typically cover the cost of all face-to-face meetings.

On-going Adviser Charge - On-going servicing vary but typically covers regular review meetings, valuations and amendments to investments based on changes in a client's circumstances including any withdrawals required. As well as to advise on maximising tax efficiency and provide clients with any information required to submit tax returns, capital gains tax reporting etc.

Keeping a Lid on Costs

That's a lot of fees to be confronted with! But don't worry – there are things you can do to reduce these fees.

- **Do your research** - spend time online, sending questions to fund managers /investment managers you may be interested in. More and more people are turning away from traditional high-cost investments, and looking for a trusted, fair, transparent professional third party. In fact, research has shown that three out of five investors require more transparency from investment providers¹.
- **Invest in modern Exchange Traded Funds (ETFs)** – not only are they low cost but they have the added bonuses of being transparent and highly liquid. And unlike UK shares, there is no 0.5% stamp duty paid on buying or selling ETFs in the UK, they also tend to charge lower fees and save on trading costs.
- **Trading activity** - To prevent incurring high transaction and trading costs, look for a professional manager who does not trade a lot – being busy to justify their fees is not good for you. On the other hand, what's the point of paying a professional manger fee if they only trade once every six months or annually? They need to be keeping an eye on your investment and taking advantage of opportunities when they present themselves. Only trading when there is a significant reason that will benefit your returns or lower your costs.



¹ <https://moneyfacts.co.uk/news/investments/investors-call-for-greater-transparency-about-environmental-and-social-impacts/>

RISK

Even those with years of experience can't boast that they have all the answers when it comes to the behaviour of the stock market. So your best chance is to balance **cost, risk, and returns** to get back as much returns on your investment money as possible.

Firstly, it's important to mention if you're considering investing – you've got to be totally aware that some level of risk is unavoidable. Some people say the alternative is to sit in cash but in our view there are also risks to this strategy – e.g. Inflation eating away at your cash, having to pay tax if not in a tax-free wrapper like a Cash ISA, and with interest rates low, your returns will not get you what you need to pay your bills or give you the financial security you need in the future.

Different people have different appetites for risk, so a good start is to know what risk category you are in by taking a quick and easy **Risk Test**.

Understanding and Reducing Risk

Not everyone is adventurous when it comes to their money. If you've worked hard to earn it over several years, it can be quite daunting to trust someone else to manage it. If you're someone who is aiming to make large returns over a short period of time, investments are often put into a far more volatile portfolio as whilst the prospect of large gains is there, so is the prospect of large losses! This decision comes with substantially more risk than investing in a long-term portfolio, aiming for steady but slower growth over a longer period.

It's important to have a reality check before you take the plunge and decide how much risk you're *actually willing* to take. Depending on this, you'll need to decide on a portfolio that is best suited to your investment expectations and attitude to risk.

Speaking to a Financial Adviser is also a good idea, especially if you've got a large pot to invest and aren't sure of what is right for you.



Risk depending on the Portfolio

But what makes an investment portfolio risky or volatile? Investments are divided into asset classes e.g. equities, bonds, property and cash. Asset allocation is the process by which a portfolio is weighted by splitting the asset classes into percentages (%) as components of the overall portfolio. Each asset class behaves differently on the stock market with some carrying more risk than others.



Main Asset Classes

Equities (Shares) - Tends to be Higher Risk

This is part of a company that you can buy and sell on a securities exchange. The returns combine increases in share prices (capital growth) and payments of dividends (income), but this can fluctuate a lot over a shorter period.

Bonds - Tends to be Medium Risk

These are loans to governments, private companies, banks and other corporations that are issued as securities, which pay regular interest over a set term. Returns can fluctuate over the short term but they're usually more stable than equities (shares).

Cash - Tends to be Lower Risk

Whilst cash is highly liquid and normally offers the lowest risk, it normally offers low returns compared to the other two asset classes above. However, this can be a good component to include in asset allocation to reduce overall portfolio risk.

If we look at the long term annualised real return (i.e. the return after allowing for inflation) for a period of over 100 years, investing in Equities has produced higher returns than either Bonds or Cash – this extra return is considered a reward for their extra inherent risk.

	Real Return (i.e. after inflation) 1900-2020
Equities (World)	+5.3% pa
Bonds (World)	+2.1% pa
Cash (World)	+0.8% pa

Source: Credit Suisse Global investment Returns Sourcebook 2021

How to reduce risk

Now you know a little more about what makes up a portfolio and how each asset class tends to carry a different level of risk, how else can we reduce it?

- Practising Diversification



Ever heard the phrase **“don’t put all your eggs in one basket!”**? It applies to investing too. When you are looking for a property, the golden rule is location, location, location. With investment risk the golden rule is diversification, diversification, diversification.

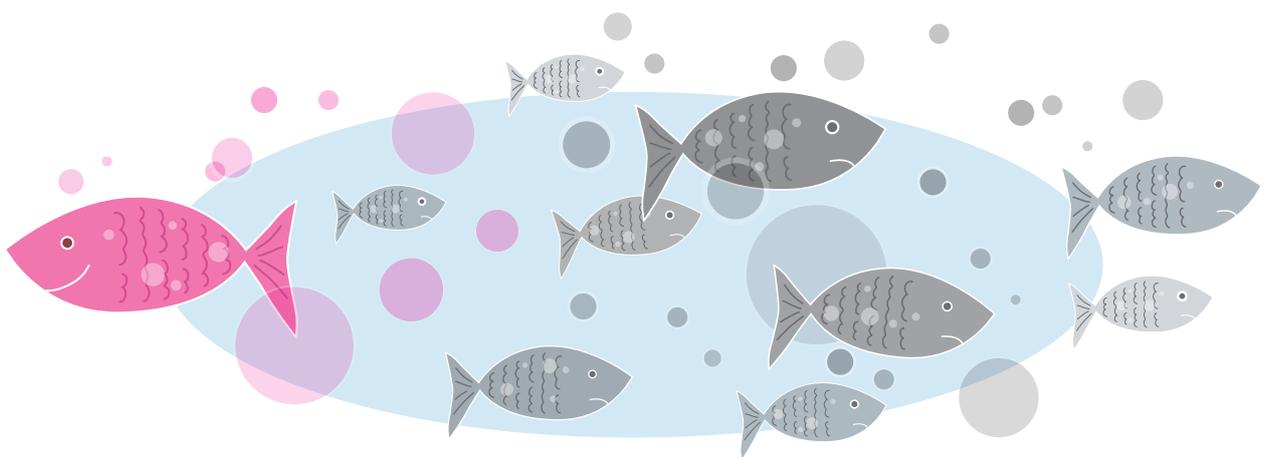
Diversifying the contents of your investment portfolio can help it achieve long-term success and a steady journey along the way. Of course, if you are looking to make huge returns, it is very unlikely you will ever achieve this through high levels of diversification simply because the method of diversification is used to ensure the volatility (and therefore, risk) is significantly less and can help reduce economic and market shocks to the investment pot. In the famous story about the Tortoise and the Hare, the tortoise wins the race even though the hare got off to a great start!

Having a blend of asset classes that carry different risks can help protect against inflation and market turbulence as well as offer potentially greater returns. Having a blended portfolio e.g. 60/40 stock/bond portfolio is considered to be a safe, traditional mix in a conservative portfolio.

The second way to reduce risk is to make sure some of the components in your portfolio are liquid. Liquidity is essentially assets that can be quickly converted into cash.

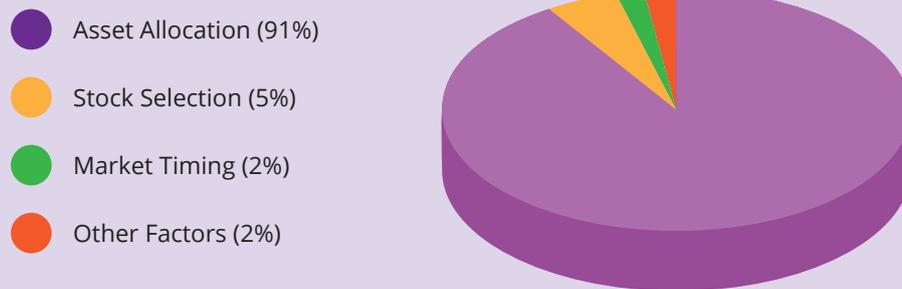
- **Be a Contrarian**

Successful asset allocation relies on a common-sense and being contrarian – not just following group think or blindly following the herd, investing in markets when they are most out of favour and under-valued can reduce the risk of being invested in the latest investment bubble or fund manager fad.



By being contrarian, combined with the application of old-fashioned fundamental investment valuation yardsticks, e.g. price/earnings, yield, price/book, price/cash flow there is more chance of improving your investment returns.

Still not convinced? A super expert, academic study by *Ibbotson Associates* et al in 2000 that showed the variation in investment returns was derived from:



• **ETF Excitement**

Due to their wide diversification, ETFs can enable investors to spread the risk of individual companies, entire sectors or even whole countries. However, they can never fully mitigate against market risks. For example, an ETF with an international focus might be subject to a currency risk, whilst an emerging market ETF might be subject to a liquidity risk associated with less liquid securities or markets. It's still worth thinking about as they're both low-cost and tend to have overall lower risk in a portfolio.

RETURNS

Ultimately your investment goal is to make your money generate enough returns to secure your financial goals. You want to see your money grow in the pot and spend it how you like so you can fund your future, whatever it may be! By now, you should feel a little more confident when it comes to what costs and charges to be aware of when deciding to begin the investment process as well as the risk factor depending on which route you go down.

'Real' Returns

Another key thing to make sure you understand is the difference between 'investment performance' and 'real returns'.



Investment performance is often expressed as a percentage. The higher the return, the happier the investor as you've made more money on your initial investment – especially if the return has been consistently good and compounding has taken place.

However, investors need to think in terms of 'real returns' after costs. Real returns after costs are what you get back once you factor in inflation and **ALL** fees.

For example, if you make 6% from your investment performance (return) but inflation is at 4% and fees are 1.5% - the real return after costs is just 0.5%.

But this is miles better than if you were sitting on cash earning interest at say 1% if you're lucky and with inflation at 4%, your real return after costs is then -3%!

To conclude, no one, however expert or professional, in the world of investing has a crystal ball. But there are some simple rules that savvy investors can follow to control cost and risk, and boost returns.

Armed with these tips and tools, you should be confident when asking a fund manager, investment manager or wealth manager about the best investment to match your financial goals and risk appetite.

*Get into the habit of investing
and look after your future self!*



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